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Royal Commission on Banking and Finance

La Federation de Quebec des Unions Regionales
des
Caisses Populaires Desjardins

Hearings
held at
Ottawa

Vol.

31

Date.

July 18, 1962



Official Reporters
F.J. Aethercut and R.J. Young
Toronto, Ont.



Ottawa, Ontario,
Wednesday, July 18, 1962

ROYAL COMMISSION ON BANKING

AND FINANCE

LA FEDERATION DE QUEBEC DES UNIONS REGIONALES

DES CAISSES POPULAIRES DES JARDINS

Hearings held at Ottawa,
Ontario, on Wednesday,
July 18th, 1962.

APPEARANCES

THE COMMISSION

L'Honorable Cyrille Vallée, Directeur General

Mr. Rosario The Honourable Dana Harris Porter de l'inspec

Chief Justice of Ontario
Mr. Andre Morin Toronto, Ontario - Statisticien - Chairman
economiste

Mr. W. Thomas Brown, M.B.E.
Mr. Marcel Caron Investment Dealer - Directeur de
Vancouver, British Columbia - Education

Mr. Paul Em Mr. James Douglas Gibson, O.B.E. secretaire
Banker

Mr. J. A. Boyer Toronto, Ontario - President, Federation
des Caisses Populaires

Mr. Gordon L. Harrold - Ontario, plan
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec - the meeting to order.

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia - appearance before

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario - read your brief on behalf
of La Federation des Caisses Populaires with very
great interest, and I may say even before we enter

the discussion with you we have been very much impressed

indeed by the development of this very important

Mr. H. A. Hampson - Secretary
organisation and the part that it has played in the

Mr. Gilles Mercure - Joint Secretary
financial and in the social life of the people who are



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Queen's University
Kingston, Ontario

- Secretary

- Joint Secretary

Mr. H. A. Hanson

Mr. Gilles Mevius



Ottawa, Ontario,
Wednesday, July 18, 1962.

--- At 8.45 A.M. the hearing resumed.

SUBMISSION OF
LA FEDERATION DE QUEBEC DES UNIONS REGIONALES
DES CAISSES POPULAIRES DESJARDINS

APPEARANCES

L'Honorable Cyrille Vaillancourt - Directeur General
Mr. Rosario Tremblay - Directeur de l'inspection
Mr. Andre Morin - Statisticien et
economiste
Mr. Marcel Caron - Directeur de
l'education
Mr. Paul Emile Charron - Assistant secretaire
Mr. J. A. Boyer - President, Federation
des Caisses Populaires
d'Ontario

THE CHAIRMAN: Call the meeting to order.

It is with very great pleasure that I welcome
you, Senator Vaillancourt, in your appearance before
this Commission today. We have read your brief on behalf
of La Federation des Caisses Populaires with very
great interest, and I may say even before we enter
the discussion with you we have been very much impressed
indeed by the development of this very important
organization and the part that it has played in the
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Ottawa, Ontario,
Wednesday, July 12, 1962

--- At 8.45 A.M. the hearing resumed.

SUBMISSION OF
LA FEDERATION DE QUEBEC DES UNIONS REGIONALES
DES CAISSES POPULAIRES RESERVING

ATTENDANCE

- Directeur de l'inspection Mr. Rosario Tremblay
- Secrétaire et Mr. André Morin
- Directeur de Mr. Marcel Gagnon
- Assistant secrétaire Mr. Paul Emile Charbon
- Président, Fédération des Caisses Populaires d'Ontario Mr. J. A. Boyer

THE CHAIRMAN: Call the meeting to order.
It is with very great pleasure that I welcome
this Commission today. We have read your brief on behalf
of la Fédération des Caisses Populaires with very
great interest, and I may say even before we enter
the discussion with you we have been very much impressed
indeed by the development of this very important
organization and the part that it has played in the
financial and in the social life of the people who are



1 served by the Caisses Populaires.

2 At the outset you may wish to make a submission
3 or read the summary, just as you wish. We have read
4 the brief and any remarks that you wish to make will
5 be very welcome indeed.

6 SENATOR VAILLANCOURT: I have only a few
7 remarks at the beginning, first, to apologize for
8 sending our brief so late but the trouble for us is
9 it is not exactly the same as a bank or insurance company
10 et cetera, because we have to receive all our own
11 information from individual or local Caisses Populaires
12 and you asked us for many new things for us.

13 We sent over 500 letters asking every manager
14 of the Caisses Populaires and that is very hard for
15 them to answer directly. That is the first problem.
16 And the translation, we were obliged to translate from
17 French to English.

18 Just at the beginning I wish to explain
19 to you in our brief we discuss only our own problems,
20 the Caisses Populaires, not of the credit unions --
21 Caisses Populaires, but only our Caisses Populaires.
22 We co-operate with the credit unions, we have the
23 same spirit and aim, et cetera, but we do not operate
24 on the same plan. The credit unions mostly operate
25 on an occupation basis. Instead, the Caisses Populaires
26 operate on a parish basis. That is why the Caisses
27 Populaires is larger with many thousands of members.
28 When you translate "Caisse Populaire" you do not
29 translate "credit union" or "Caisse Populaire and
30 credit union". You cannot translate them into French



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1 or English. The name is very hard to
2 translate.

3 Those are my remarks and after that I can
4 read our summary or do you think it is necessary?

5 THE CHAIRMAN: I do not think it is necessary
6 unless there is anything special. I think in the dis-
7 cussion the various points will come out and if there
8 is anything to add at any point we would very much
9 welcome it.

10 SENATOR VAILLANCOURT: For the Commission
11 I think it would be better to discuss it in English
12 but sometimes it is very hard to translate exactly.

13 COMMISSIONER LEMAN: Well, through the last
14 few days you, yourself, Senator, have listened to
15 proceedings with other associations and so did Mr.
16 Tremblay -- we noticed him in the audience. Let us
17 try to give a good example to all those who will come
18 after us and speak so clearly and loudly that the
19 audience can all hear us. I think probably you were
20 suffering from that disability?

21 SENATOR VAILLANCOURT: Surely.

22 COMMISSIONER LEMAN: I would like to ask you
23 a few questions pertaining mostly to the organization
24 of the Caisses Populaires in the province. These
25 are at the beginning of the brief and in giving you
26 references to some of my questions I am going to refer
27 to page numbers in the English text.

28 SENATOR VAILLANCOURT: Yes.

29 COMMISSIONER LEMAN: The first question I
30 would like to ask you relates to some text on page A-40.



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SENATOR VAILLANCOURT: Yes.

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a few questions pertaining mostly to the organization

of the Gaiasses Populaires in the province. These

are at the beginning of the brief and in giving you

references to some of my questions I am going to refer

to page numbers in the English text.

SENATOR VAILLANCOURT: Yes.

COMMISSIONER LEMAN: The first question I

would like to ask you relates to some text on page A-40.



1 There is an explanation given there of the fact that
2 when there are refunds of interest to borrowers these
3 refunds are proportionate to the interest that has been
4 paid by these people to the local Caisse. What I
5 would like to know are the rates on loans all uniform?

6 SENATOR VAILLANCOURT: No. It all depends
7 on the size and the age of the local Caisse Populaire.
8 You take a Caisse Populaire of 62 years, the first
9 Caisse Populaire, and that is a bigger Caisse Populaire
10 than your new one and we have a reserve fund, et cetera,
11 and our interest is $5\frac{1}{2}$ per cent and for the last 15
12 years we refund one-half of one per cent of interest
13 to our borrowers. The net interest is 5 per cent.

14 COMMISSIONER LEMAN: But within one local
15 are the rates always uniform? If one local makes
16 loans can it change its rates according to the purpose
17 of the loan?

18 SENATOR VAILLANCOURT: On the notes, ordinarily
19 on the notes the rate is one per cent smaller on notes
20 than on mortgages. If we charge 6 per cent on mortgages,
21 personal loans are roughly one-half of one per cent,
22 but not the Caisse Populaire; it all depends on the
23 size of the Caisse Populaire and the profit made the
24 year before because at the end of the year when a year
25 is finished and we have paid interest on savings we
26 are getting interest from the loans and wherever there
27 are profits after that we put 30 per cent in the reserve
28 and the balance is supposed to be returned to the members.

29 COMMISSIONER LEMAN: This business of having
30 usually a rate of interest one per cent lower when the



There is an explanation given there of the fact that when there are refunds of interest to borrowers these refunds are proportionate to the interest that has been paid by these people to the local Caisse. What I

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Caisse Populaire, and that is a bigger Caisse Populaire than your new one and we have a reserve fund, et cetera, and our interest is $5\frac{1}{2}$ per cent and for the last 15 years we refund one-half of one per cent of interest to our borrowers. The net interest is 5 per cent.

COMMISSIONER LEMAN: But within one local are the rates always uniform? If one local makes loans can it change its rates according to the purpose of the loan?

SENATOR VAILLANCOURT: In the same manner on the notes the rate is one per cent smaller on notes than on mortgages. If we charge 6 per cent on mortgages, personal loans are roughly one-half of one per cent, but not the Caisse Populaire; it all depends on the size of the Caisse Populaire and the profit made the year before because at the end of the year when a year is finished and we have paid interest on savings we are getting interest from the loans and wherever there are profits after that we put 30 per cent in the reserve and the balance is supposed to be returned to the members. COMMISSIONER LEMAN: This business of having usually a rate of interest one per cent lower when the



1 security for the loan is a mortgage is the philosophy
2 behind that, the fact that one is better secured than
3 the other?

4 SENATOR VAILLANCOURT: No, not only better
5 secured. You know, it is more expensive to deliver
6 100 notes than one loan on a mortgage. It is more
7 expensive. If you have 1000 loans of \$100 each and
8 suppose you have only ten loans of \$10,000 on a mortgage
9 it is more expensive for the 1000.

10 COMMISSIONER LEMAN: That is because these
11 personal loans are generally smaller?

12 SENATOR VAILLANCOURT: Yes. You know at
13 first when we permit a loan to a member the first
14 guarantee is a moral guarantee and the moral is the
15 same for a big loan or a little loan.

16 COMMISSIONER LEMAN: Are refunds of interest
17 fairly frequent because I would like to ask you a question
18 about how these work? If they are not frequent perhaps
19 it is not necessary to delve into how you figure them
20 out. Are they frequent or not?

21 SENATOR VAILLANCOURT: Frequent for the
22 old caisses populaires, but you know we started really
23 with our organization in 1932. Before that, with the
24 largest caisses populaires there is frequently a refund
25 of interest set for the new caisses populaires for 20
26 or 15 years it is more difficult because we have no
27 reserves. We are obliged to build a reserve. That
28 is the reason, that is all, and, for example, five or
29 ten years ago when the interest on the bonds was only
30



security for the loan is a mortgage is the philosophy behind that, the fact that one is better secured than the other?

SENATOR VAILLANCOURT: No, not only better secured. You know, it is more expensive to deliver 100 notes than one loan on a mortgage. It is more expensive. If you have 1000 loans of \$100 each and suppose you have only ten loans of \$10,000 on a mortgage it is more expensive for the 1000.

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1 3 per cent or $3\frac{1}{2}$ per cent it is very difficult to give
2 some refund of interest to the people because at that
3 time our local interest on the mortgage and on the cost
4 was $4\frac{1}{2}$ per cent and 5 per cent. That is only a few
5 years ago that our interest rate was 6 per cent and
6 $5\frac{1}{2}$ per cent. After that it was according to the bond
7 interest.

8
9 COMMISSIONER LEMAN: In very recent years,
10 say in the last two or three years, could you give us
11 an idea of how many locals had no refund of interest
12 and I am talking here separately from any dividend
13 on the shares or interest on deposits? I am asking
14 about refunds of interest to borrowers.

15 MR. TREMBLAY: I would say it is a small
16 proportion, maybe 10 per cent of the total number of
17 caisses populaires.

18 COMMISSIONER LEMAN: Ten per cent would
19 be a little over 100 locals that do it?

20 MR. TREMBLAY: Yes.

21 COMMISSIONER LEMAN: When they do it what
22 I am curious about is your brief says that the amount
23 of the return varies according to the amount of interest
24 charged on loans. So I would like to give you an
25 example so we can understand how the formula works.
26 Suppose one man had borrowed \$1000 from the local at
27 5 per cent for the year and therefore he had paid
28 \$50 interest on his loan and then another man had
29 borrowed \$500 at 7 per cent, say, for a different
30 purpose, and he would have paid only \$35 interest to
the caisse?

per cent or 3 1/2 per cent it is very difficult to give

some refund of interest to the people because at that time our local interest on the mortgage and on the coast

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purpose, and he would have paid only \$35 interest to

the caisse?



1 MR. TREMBLAY: Yes.

2 COMMISSIONER LEMAN: If you give them a
3 refund of interest the man who had borrowed \$1000 at
4 5 per cent and therefore paid \$50 interest, would he
5 get more back than the one who had paid 7 per cent
6 on a smaller loan?

7 MR. TREMBLAY: The way they do it, they
8 give a rebate of 10 per cent or 15 per cent of the
9 interest paid so everybody will get a rebate in
10 proportion to the amount he has paid in interest.
11 So, in the first case it will be 10 per cent of \$50
12 and in the other one 10 per cent of \$35.

13 MR. BOYER: But there is not different
14 rates of interest in the same local. There is only
15 one rate of interest in the one local. They will
16 not be different.

17 COMMISSIONER LEMAN: That is what I was
18 asking earlier, whether the rates of interest are
19 all uniform.

20 MR. TREMBLAY: They are generally uniform
21 except for the guaranteed loans with mortgages or
22 to a public body or cases of that type.

23 COMMISSIONER LEMAN: Well, Senator Vaillancourt
24 earlier told me that even within one local there could
25 be a difference of one per cent on a secured loan as
26 against an unsecured loan.

27 SENATOR VAILLANCOURT: Yes, that is right.

28 COMMISSIONER LEMAN: And I now refer you a
29 little further on to page A-44. There you explain to
30 us what happens if for any reason a caisse has to be

refund of interest the man who had borrowed \$1000 at 5 per cent and therefore paid \$50 interest, would he get more back than the one who had paid 7 per cent on a smaller loan?

MR. TREMBLAY: The way they do it, they give a rebate of 10 per cent or 15 per cent of the interest paid so everybody will get a rebate in proportion to the amount he has paid in interest. So, in the first case it will be 10 per cent of \$50 and in the other one 10 per cent of \$35.

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asking earlier, whether the rates of interest are all uniform.

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except for the guaranteed loans with mortgages or to a public body or cases of that type.

SENATOR VAILLANCOURT: Yes, that is right. And I now refer you a little further on to page A-44. There you explain to what happens if for any reason a case has to be against an unsecured loan.

SENATOR VAILLANCOURT: Yes, that is right.

COMMISSIONER LEMAN: And I now refer you a

little further on to page A-44. There you explain to

what happens if for any reason a case has to be



1 liquidated and terminate its business and you explain
2 that there is priority given to the repayment of any
3 loans that might have been made to the local and the
4 deposits will rank right next to that and that the
5 balance of the assets realized will be used to repay
6 share capital and if there is not adequate money to
7 cover deposits the members will be asked to complete
8 the payments of any capital that has been subscribed
9 but not paid. These liquidation priorities, are they
10 prescribed by law or are you just explaining how it
11 is worked?

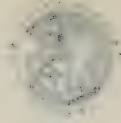
12 SENATOR VAILLANCOURT: No, by law.

13 MR. TREMBLAY: We come under Section 3 of
14 the Companies Act for the winding up, so we have to
15 proceed for the winding up or in a bankruptcy case
16 in the same proceedings as would an ordinary company.
17 We follow the same order of preference in the payments
18 of the liabilities.

19 COMMISSIONER LEMAN: That is just the
20 general law.

21 MR. TREMBLAY: Yes, just the general law.

22 COMMISSIONER LEMAN: On the next page you
23 make quite a point through your brief and through the
24 history of the caisse populaire about the educational
25 value to your members especially in the field of
26 learning the practices of thrift. Did you ever think
27 there was anything peculiar about Quebec in this
28 respect as compared with other areas of Canada or other
29 countries? Do you find that Quebec already tended
30 to be very thrifty, especially in the rural areas or not?



liquidated and terminate its business and you explain that there is priority given to the repayment of any loans that might have been made to the local and the deposits will rank right next to that and that the balance of the assets realized will be used to repay share capital and if there is not adequate money to cover deposits the members will be asked to complete the payments of any capital that has been subscribed but not paid. These liquidation priorities, are they prescribed by law or are you just explaining how it is worked?

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COMMISSIONER LEMAY: On the next page you

make quite a point through your brief and through the history of the case legislative about the educational value to your members especially in the field of learning the practices of thrift. Did you ever think there was anything peculiar about Quebec in this respect as compared with other areas of Canada or other countries? Do you find that Quebec already tended to be very thrifty, especially in the rural areas or not?



1 SENATOR VAILLANCOURT: We have had our ex-
2 perience especially in Quebec, but you know the educational,
3 that is very hard, not only educational in general
4 but any kind of education is a very, very long way to
5 Tipperary. We have organized this educational plan
6 especially in the schools because it is very hard to
7 educate a man at 60 or 70 years of age and we started
8 at the beginning in the first year of the organization
9 of the caisses populaires. They organized a school
10 savings plan in the city of Levis and in the first year
11 they collected around \$500 in cents and he was very,
12 very happy. But for our experience, take my proper
13 city of Levis, five years ago I was on the board of
14 directors of the school and we started to educate
15 the school for saving and at the beginning we arrived
16 with as good results in the lower class at six years,
17 seven years, and the upper classes, eleven, twelve
18 years, school organizations apparently no results --
19 nothing.

20 You know these young people of ten and twelve
21 years, they have no training and they spend all their
22 money et cetera, and this year we have the best result
23 of the upper class than the other and that is the result
24 of education for five or six years.

25 COMMISSIONER LEMAN: Senator Vaillancourt,
26 at least the reputation of the French Canadian in the
27 rural areas was that he was thrifty, but perhaps he
28 did not know how to use his savings very well.

29 SENATOR VAILLANCOURT: No, we are not more
30



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of the classes popularizes. They organized a school

savings plan in the city of Lévis and in the first year

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very happy. But for our experience, take my proper

city of Lévis, five years ago I was on the board of

directors of the school and we started to educate

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of education for five or six years.

(SENATOR VAILLANCOURT: Now, Senator VAILLANCOURT)

at least the reputation of the French Canadian in the

rural areas was that he was thrifty, but perhaps he

did not know how to use his savings very well.

SENATOR VAILLANCOURT: No, we are not more



1 virtuous people in Quebec than any other place.

2 COMMISSIONER LEMAN: I got the impression
3 from the text on page 46 that primarily the purpose
4 of the caisse populaire was not to make business loans.
5 To what extent are business loans made in the system
6 now?

7 SENATOR VAILLANCOURT: We operate without
8 members, with our members, and it was built by Mr.
9 Desjardins who owned our members in the local area.
10 We do not go into the field of the bank organizations
11 to borrow money. We cannot do that because we are
12 not in training for that. We have no expert for that
13 in our organization but on the local plan the accredited
14 members of our organization know the people and know
15 for what reason these people want some money for doing
16 so and so, and if it is possible they want money to
17 organize some furnishings and so on, they are not
18 prepared to go in this business and they will refuse
19 that.

20 You know, we use first the money where the
21 money is produced and we send the surplus to the central
22 organizations and in the rural organizations we can do
23 a very large business there. That is only with the
24 farmers and the local labourers there, et cetera.

25 COMMISSIONER LEMAN: Suppose one of your
26 members should be a store owner, a merchant, and it
27 is not an incorporated business but he is in business,
28 would you refuse him a loan if he wants to use it for
29 his business?

30 SENATOR VAILLANCOURT: We give the loans to



virtuous people in Quezon than any other place.

COMMISSIONER LEMAN: I got the impression

from the text on page 46 that primarily the purpose

of the relief program was not to make business loans.

To what extent are business loans made in the system

now?

SENATOR VILLANOVITA: We cannot do that without

members, with our members, and it was built by Mr.

Deasardina who owned our members in the local area.

We do not go into the field of the bank organizations

to borrow money. We cannot do that because we are

not in training for that. We have no expert for that

in our organization but on the local plan the accredited

members of our organization know the people and know

for what reason these people want some money for doing

so and so, and if it is possible they want money to

organize some furnishings and so on, they are not

prepared to go in this business and they will refuse

that.

You know, we use first the money where the

money is produced and we send the surplus to the rural

organizations and in the rural organizations we can do

a very large business there. That is only with the

farmers and the local laborers there, et cetera.

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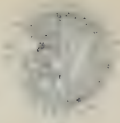
1 these merchants with a guarantee on a mortgage. We do
2 not loan on the merchandise, et cetera. We take a
3 mortgage, I suppose \$10,000, and in one month he
4 wants \$1,000 and in another \$2,000 and goes back to
5 \$1,000 et cetera. It is up and down, but guaranteed
6 by a mortgage.

7 COMMISSIONER LEMAN: But in fact this
8 would be a business loan in that sense. He might be
9 using it to finance his inventory. You understand that
10 basically his needs may go up and down so he could be
11 using it for his business.

12 SENATOR VAILLANCOURT: Yes, for his business.
13 The banks might take the guarantee of inventory, but
14 we cannot take a guarantee on inventory. That is the
15 reason we take a guarantee on a mortgage.

16 COMMISSIONER LEMAN: Do you have any
17 statistics showing that?

18 SENATOR VAILLANCOURT: Oh, that is not
19 more than one per cent, sometimes.



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1 COMMISSIONER LEMAN: On what might be deemed
2 a loan, but very, very small?

3 SENATOR VAILLANCOURT: Yes.

4 MR. TREMBLAY: And it will be done in the
5 localities where there are no banks.

6 SENATOR VAILLANCOURT: You know, we have over
7 500 places in Quebec, but no banks were established,
8 and in those places we are obliged to furnish it.

9 COMMISSIONER LEMAN: I see on page 191 you
10 do give us some statistics on the distribution of the
11 types of loans that are made, and these statistics
12 show that they are fairly small?

13 SENATOR VAILLANCOURT: Oh, very, very small.

14 COMMISSIONER LEMAN: I would like to refer
15 you now to page A50. Does the caisse populaire apply
16 new issues quite often that come out on the market; say,
17 municipal issues, that sort of thing? Are new issues
18 often bought?

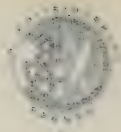
19 SENATOR VAILLANCOURT: Except to buy from the ---

20 COMMISSIONER LEMAN: Well, when a new issue
21 would come out; often they come out through an investment
22 dealer and I want to know if you often buy new issues?

23 SENATOR VAILLANCOURT: Oh, yes, especially in the
24 schools in the municipality.

25 COMMISSIONER LEMAN: Does the caisse populaire
26 sometimes make a loan directly without going through --
27 not going on the market -- through an investment dealer?

28 MR. VAILLANCOURT: Sometimes, especially in the
29 locality where we are alone; where they have no branch
30 of the banks and before the municipality collects the



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1 taxes we advance small loans, \$10,000, \$20,000, \$40,000,
2 it all depends on the size of the locality, but not
3 more than that, but when the locality put on the market
4 some loan -- ask for loan -- we ask the locality first
5 if you want to take some parts of these loans through
6 organized market for them on bonds, and we take the
7 shorter term and we leave the longer term for the
8 insurance, and so on, other organizations.

9 COMMISSIONER LEMAN: Would you sometimes put
10 in a bid for it where the municipality works on a bid?

11 SENATOR VAILLANCOURT: No, except for a little
12 locality where they are asking us, "Do you agree to
13 borrow \$20,000 on bonds?", and at that time we lend
14 the money at the same prices as we lend to our own
15 members, but that is only very, very, very few.

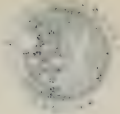
16 Ordinarily, any locality or school board, and
17 so on, put an advertisement in the paper asking for
18 public issuance, and after that we buy some bonds, but
19 ordinarily we take shorter terms for the school, the
20 parts guaranteed by the government, that is all, and
21 the balance is going on the free market outside.

22 COMMISSIONER LEMAN: You want them to test
23 the market, you don't want to make private deals with
24 them?

25 SENATOR VAILLANCOURT: Very few. Sometimes, but a
26 very small area.

27 COMMISSIONER LEMAN: Could it happen that
28 the church might make a loan?

29 SENATOR VAILLANCOURT: The same thing with the
30 school or municipality, the same thing.



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1 COMMISSIONER LEMAN: On page 61 you explain
2 how the local caisses populaire is managed; that they
3 always have to have a president, vice-president,
4 secretary, etc., but that they will also have a manager
5 and when they have a sufficiently large unit the manager
6 will be a paid employee, but you also explain that
7 sometimes the manager could be the president of the
8 local?

9 SENATOR VAILLANCOURT: That is the exception.
10 You know, some places on the North Shore where there
11 are fishermen, and so on, you have perhaps a dozen
12 people with very good training in these organizations,
13 and sometimes we are obliged to have the president
14 and the manager as the same man, and you know for
15 myself that I am the manager and president of our local
16 organization in the Quebec area, the central organization,
17 and I am the president and the manager, because I know
18 we have some people who can do better than I, but they
19 are patient with me because I am in the field for over
20 50 years and that is the reason, that is all.

21 COMMISSIONER LEMAN: But not generally?

22 SENATOR VAILLANCOURT: No, not generally.

23 COMMISSIONER LEMAN: It is not usual for the
24 two functions to be together?

25 SENATOR VAILLANCOURT: No. The secretary and the
26 manager, yes, that is usual, but not president and
27 manager.

28 COMMISSIONER LEMAN: And then going on a
29 little bit further and still in the organization of the
30 locals there, one of the bodies is one which you call

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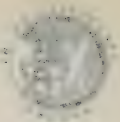
1 the Board of Supervision and you explain what its
2 functions are; it is supposed to represent in effect
3 shareholders and be sort of a watch-dog for the operations
4 of the locals. How effective are the boards of
5 supervision in fact, are they very active?

6 SENATOR VAILLANCOURT: Mr. Tremblay will answer
7 to that.

8 MR. TREMBLAY: Well, I would say that a
9 certain per cent of the supervisory are quite active
10 and perform a very good job. In some other cases they
11 may meet less often, and maybe by lack of knowledge
12 of accounting practice they will only meet three or
13 four times a year, but then again they will perform
14 quite a good job by making a perusal of the last
15 inspector's report and see that some of the major
16 points are correct, but unfortunately with certain
17 personalities, who are probably high, I would say around
18 40 or 50 per cent of cases, the supervisory committee
19 do not function as well as they should.

20 Now, in the big caisse populaire it is
21 frequently impossible to perform the duty the way they
22 do in the smaller credit unions because of office
23 hours, because of the time locks on the safes of the
24 vaults, and they cannot get in after the offices are
25 closed or over the weekend, so in the larger ones
26 even if they wanted to it is pretty hard to perform
27 their work the same as they do in the rural district
28 in the smaller region.

29 COMMISSIONER LEMAN: But do you feel that
30 that institution in the system is really worthwhile?



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COMMISSIONER LEWIS: For do you feel that

that institution in the system as really, well, that



1 MR. TREMBLAY: Well, we feel that it must
2 be maintained because I forgot to tell you that in
3 some of the larger caisses they might hire outside
4 auditors -- that is rather infrequent, but it happens --
5 and they have the highest power in the society and they
6 have the right to go to the manager if anything is
7 found to be incorrect in the management of the society,
8 so they are vested with very strong powers, and as
9 inspectors we feel that we have a supervisory board.
10 Even if he was inactive in practice he would be very
11 useful in such a caisse if the federation or the
12 inspection department found out some irregularities
13 and we had to take some kind of action, because really
14 they are vested with all the powers.

15 COMMISSIONER LEMAN: Well, have you any figures
16 on how often, for instance, this supervisory board has
17 appealed to the shareholders over the head of the
18 board of management?

19 MR. TREMBLAY: Well, that would be very rare.
20 In my personal experience of over a quarter of a century
21 in this line of work I only know of a couple of occasions.
22 We don't have to resort to this means usually; we get
23 the solution before that.

24 COMMISSIONER LEMAN: It is just a reserve
25 kind of ---

26 MR. TREMBLAY: It is a last resort means
27 of action.

28 COMMISSIONER LEMAN: On page 73 you make
29 a point of the fact that the regional body do not loan
30 money to affiliated units to enable them to give loans

MR. TREMBLAY: Well, we feel that

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COMMISSIONER LEMAY: On page 17 you take

a point of view that the regional board is not loan

to be able then to give



1 to shareholders, but nevertheless you do explain that
2 sometimes these regional bodies will make loans to
3 units; what is the purpose of the loan when it is
4 made?

5 SENATOR. VAILLANCOURT: The purpose of the loan is
6 this. You know we have rural organizations, local
7 caisse populaire, rural places, and the others are
8 in the city.

9 During the springtime, April, May, June, July,
10 and so on, the local rural organizations sometimes
11 are obliged to borrow money because the farmers in the
12 springtime want more money for feed, for farm machinery,
13 and so on, to organize his planting for the summer,
14 and very often the money will come back.

15 In the city it is the contrary; they arrive
16 in November and December, people want their money to
17 pay the taxes, to pay for the gifts for Christmas,
18 and so on, and you know it is different during the year,
19 and sometimes -- I remember in 1959 when the tight
20 money arrived, the local caisse populaire was not
21 very, very liquid and there were negotiations with
22 the local, and so on, but we never borrow money through
23 the local and for this local to borrow money for
24 loan to their members, never.

25 COMMISSIONER LEMAN: So, whenever there are
26 loans they are strictly seasonal and very, very
27 short?

28 SENATOR VAILLANCOURT: Ordinarily, yes, except
29 in 1959 when the tight money arrived; the local caisse
30 populaire was not liquid and the centre of negotiations



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1 was with the local.

2 MR. TREMBLAY: And this is to prevent the
3 local society from selling this bond at a loss, at
4 a very heavy loss, and in a small society where the
5 reserves are small, to take a 10 point loss on an
6 issue of bonds might wipe out all their reserves, so
7 the central will step in and make a loan secured by
8 these bonds, and the local society by stopping
9 immediately all the loans and collecting what is coming
10 due or what they can, and they recuperate, and in the
11 measure that they do recuperate they reimburse the
12 central; it is a temporary business.

13 COMMISSIONER LEMAN: We will get into this
14 business later of the reaction of the whole system
15 to monetary conditions; I don't think we had better
16 discuss it just now.

17 You describe at great length here your
18 inspection system, and I think that you have reason
19 to be very proud of it and you seem to be very proud
20 of it. You refer in one spot to the fact that there
21 is a subsidy involved to the province to help the
22 system with its inspection system. What does this
23 subsidy amount to now?

24 SENATOR VAILLANCOURT: \$90,000, but we spend
25 a lot more than that; we receive \$90,000 from the
26 government and the balance is furnished by the local
27 caisse populaire.

28 COMMISSIONER LEMAN: What proportion of the
29 total ---

30 SENATOR VAILLANCOURT: It is one-seventh, I



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SENATOR WILLIAMSON: \$20,000, but as against

a lot more than that; we receive \$20,000 from the

Government and the balance is furnished by the local

charitable organizations.

COMMISSIONER LEWIS: What proportion of the

total --

SENATOR WILLIAMSON: It is one-eighth, I



1 think, from the government and six-sevenths from us.

2 MR. TREMBLAY: The object of the federation is
3 approximately \$1 million so we get \$90,000 out of it.

4 COMMISSIONER LEMAN: But the budget of the
5 federation is not all for inspection, is it?

6 MR. TREMBLAY: No, but approximately 60 per
7 cent is for the inspection and that is the external
8 services alone and a lot of the internal services of
9 the federation are entered in the books as general
10 administration and are also indirectly for the inspection
11 service, like the secretaries and the stenographers,
12 the rent, the light, legal services and advice from
13 the audit department.

14 COMMISSIONER LEMAN: When the movement was
15 starting, I can well understand why such a subsidy
16 was necessary to help the movement and to get good
17 quality of inspection, but now-a-days what do you
18 feel justifies a subsidy on this?

19 SENATOR VAILLANCOURT: I think that is
20 justified because the government is not obliged to
21 supervise, and if the government took the supervision
22 and inspection of all local caisses populaires it
23 will spend probably millions of dollars, and more than
24 that, and this is the reason why the government gives
25 \$90,000. That is a very good thing for us.

26 MR. TREMBLAY: You take the fact of distances,
27 for instance; we go to 900 miles, from Quebec right
28 to practically Newfoundland, it is 16 miles across
29 the Strait, and these are not easy localities to get
30 to. You also have the Magdalen Islands and the Gaspé



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1 Peninsula and Temiscamingue, and we have to cover all
2 that ground and a lot of these people would never have
3 any kind of banking facilities if we didn't do this.
4 There is no privately owned company that would think
5 of opening up a branch of some kind in these small
6 places and we were the only one to go and make --
7 take the necessary steps to organize these people and
8 help them out and do the promotion and the education
9 and organize study groups and get them going, and
10 even after that they didn't have a big choice of
11 trained people in accounting. So, the first thing you
12 know is the books are all out of order and you have
13 to do the accounting for them once or twice a year,
14 and then they are not very legible pieces of chequing,
15 and things of that kind, or they get caught up in
16 N.S.F. cheques, and things of that kind, and we have
17 to send somebody to get them out of the hole, and
18 that costs more than \$90,000 a year. It costs a fortune,
19 and if the government ever tried doing it, why, I agree
20 with Senator Vaillancourt that they will find it
21 costs them not \$90,000, but you can put at least a
22 couple/^{of}zeros behind it.

23 MR. BOYER: I think on this matter of subsidy
24 that it could be said in the Province of Quebec the
25 government has no inspection service for the caisse
26 populaire; the government relies on the federation to
27 do this. In other provinces there is a whole staff
28 of government employees to do this work, so I would
29 surmise that the government of Quebec is saving money
30 by giving this \$90,000; it would be less than if they



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14 and then they are not very legible pieces of accounting,
15 and things of that kind, or they get caught up in
16 U.S.E. charges, and things of that kind, and we have
17 to send somebody to get them out of the hole, and
18 that costs more than \$50,000 a year. It costs a fortune,
19 and if the government ever tried doing it, why, I agree
20 with Senator Villeneuve that they will find it
21 costs them not \$50,000, but you can put at least a
22 couple\hundreds behind it.

MR. BOYER: I think on this matter of subsidizing
that it could be said in the Province of Quebec the
government has no inspection service for the cattle
population; the government relies on the federation to
do this. In other provinces there is a whole staff
of government employees to do this work, so I would
surmise that the government of Quebec is saving money
by giving this \$50,000; it would be less than if they



Nethercut & Young

Toronto, Ontario

- 3640 -

1 had to organize their inspection service, so it is
2 costing less to do it this way.
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view and it is of great interest.



1 COMMISSIONER LEMAN: Of course, there is
2 nothing that would stop a government from having an
3 inspection service and assessing the cost on the
4 inspection. It is done in quite a few other fields.

5 SENATOR VAILLANCOURT: But every local caisse
6 populaire every year is obliged to report to the
7 government, signed by our inspector -- once a year.
8 That is not only our reports; it is all the details
9 of the work of the local caisse populaire, and this
10 report is sent in.

11 COMMISSIONER LEMAN: I don't blame you if
12 you can get it; that is very nice. Would you explain
13 to us a little what is the real authority of the
14 parent organization in the field of inspection? Is
15 inspection compulsory for every unit in the system?

16 SENATOR VAILLANCOURT: Yes, according to
17 the law every local caisse populaire is obliged to
18 be inspected by us, or they are obliged to pay for
19 inspection by the Minister of Finance.

20 COMMISSIONER LEMAN: What is the real authority
21 of these inspectors? What can they do if they find
22 something that is not quite according to the rules?

23 SENATOR VAILLANCOURT: In the past the
24 situation was not the same, because in the past all
25 the people were supposed to be honest, but now there
26 are some temptations to change a little bit, and if
27 we discover something wrong in the local caisse populaire
28 we advise, first, the supervisory board, and the board
29 of directors, and if there is no change we have the
30 right to advise the government, and the government sends



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1 the proper inspectors. After that the government can do
2 what they think is necessary. However, in 99.9 per
3 cent of their cases we settle the situation direct
4 with the local caisse populaire.

5 COMMISSIONER LEMAN: What are your weapons?
6 Can you suspend a unit?

7 SENATOR VAILLANCOURT: No, not according to
8 the law, but we expect at the next session we will
9 have this authority to suspend directly. When we arrive
10 at the local caisse populaire and discover some theft
11 or something we have now asked that the law be changed
12 and that we have the right to suspend the manager or
13 any of the people. According to the law the manager
14 and every person working in the caisse populaire is
15 obliged to furnish a bond or insurance guaranteeing
16 their honesty, and if we discover something wrong we
17 advise the insurance company and immediately they say,
18 "After today we cancel the insurance", and they advise
19 all the board of directors and the commissioners and
20 so on, and that is enough.

21 COMMISSIONER LEMAN: That is firmly effective?

22 SENATOR VAILLANCOURT: Absolutely.

23 COMMISSIONER LEMAN: But does the government,
24 despite the fact it has left the inspection system
25 to the federation, check on the quality of inspection?
26 Does it go over with you the methods used in inspecting
27 all the procedures?

28 MR. TREMBLAY: We report once a year to the
29 government. It is in the contract that we must do
30 at least one inspection a year, and at the end of the year



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COMMISSIONER LEWIS: But not the Government.

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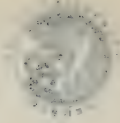
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1 we have to submit to the government the name of the
2 inspectors, the condition of their hiring and the
3 necessary proof of their competence. Then we also
4 submit to them a statement of the expenses involved
5 and the number of inspections that have been carried
6 out during the year, and the subsidy is so arranged
7 that if we do not do all of the inspections we do not
8 get it all. So, it is linked together: It is so
9 many dollars per inspection up to \$90,000. Of course,
10 we always get it because we always perform the
11 inspection once a year, and when necessary we may do
12 it three or four or ten times, as we see fit.

13 COMMISSIONER LEMAN: What do you refer to
14 when you talk about the permanent inspection of the
15 regionals?

16 MR. TREMBLAY: That point is to cover up the
17 incapacity of the supervisory board to perform any
18 kind of intelligent audit or work in their proper
19 function. They are benevolent officers and you cannot
20 expect a man to take control of a central with 50
21 or 60 employees and with a turn-over of 60 or 70 thousand
22 cheques or orders of payment a day. It is so complicated:
23 We have at times as many as 20 or 25 senior inspectors
24 to take complete control of the vaults and the chest
25 and the clearing, the incoming mail and the outgoing
26 mail, and only well trained personnel in that line of
27 business can do that type of audit. It is about the
28 same thing as the inspection of a main office of
29 a chartered bank. They may prepare that inspection
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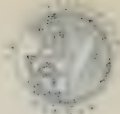
2 We call it "permanent inspection" because
3 we feel the turn-over has become so large that they
4 also act as custodians. They do the safekeeping of
5 the bonds owned by the local societies. So, they
6 are really trustees for millions of dollars of bonds.
7 So, we feel we have to go more than once a year, so
8 we organized a special department within the inspectors'
9 department with trained men, trained in the clearing
10 operation and the central operation, and when they
11 come in to take control three or four or five times
12 a year we add to that the necessary extra staff to
13 perform the start of the inspection and they do the
14 rest themselves. That is really to supplement what
15 the supervisory committee cannot do at that level because
16 it is too big.

17 COMMISSIONER LEMAN: Is it permanent in the
18 sense that you have a staff of inspectors that stays
19 with that region?

20 MR. TREMBLAY: All year round, and in the
21 bigger ones, in fact, we may have at least one man,
22 and sometimes more, who will be there practically all
23 year round -- all the time, checking out things and
24 doing some different types of spot checks according
25 to whatever plan we make at the beginning of the fiscal
26 year.

27 COMMISSIONER GIBSON: He acts as a sort of an
28 office auditor?

29 MR. TREMBLAY: He will be acting somewhat like
30 an internal auditor at the same time and check the



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1 procedure, the routine, and if there is anything that
2 seems to offer a loophole for an employee to go on
3 a side-track, we will discuss it immediately with
4 the authorities and take the necessary steps to correct
5 it.

6 COMMISSIONER LEMAN: When the inspection is
7 made of a local they make a report of their inspection
8 to the board of that local: Do they send a copy of
9 their report to the regional or the big federation?

10 MR. TREMBLAY: The report is not made to the
11 local society. The report is made to the federation.
12 The inspector is working not for the local society,
13 but for the federation. The report is sent in four
14 copies to the federation where it is analyzed first,
15 and then we make moral recommendations, and in certain
16 cases if there is anything wrong a special report
17 is made to the board of directors or the executive
18 committee of the federation. In those cases that
19 special report that is taken over to the board of the
20 federation is also sent to the regional unit for action,
21 and in all cases the report is sent by the federation
22 to the president of the local society under registered
23 mail -- never to the manager -- and the letter to the
24 manager saying that the inspectors' report has been
25 sent to the president under registered mail, and a
26 copy sent at the same time to the regional unit with
27 the proper comments of the federation on the subject.

28 COMMISSIONER LEMAN: Does the board of
29 management of the local get a copy of the report of
30 the inspector that is sent to the federation?

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COMMISSIONER LEMAN: Does the board of management of the local get a copy of the report of the inspector that is sent to the federation?



1 MR. TREMBLAY: Yes, but they get it by the
2 federation, not from the inspector. While the inspector
3 is performing his work, and before it is over, he
4 will discuss his findings with the manager and the local
5 officers and before he leaves he will generally -- in
6 75 per cent of the cases -- convene a joint meeting
7 with the members of the three committees -- the board
8 of directors, the credit committee and the supervisory
9 committee, and discuss with them the findings of the
10 inspection. So, even before the report comes in they
11 will know what is wrong and what is right and they
12 make appropriate plans to remedy whatever situation may
13 arise.

14 COMMISSIONER LEMAN: Because I have seen reports
15 of auditors in other types of concerns, like in my own
16 business, and sometimes the auditors will make a note
17 that there was weakness in certain accounting procedures
18 but that this, after discussion with the local accountant,
19 has been corrected.

20 MR. TREMBLAY: That is right; that is what
21 we do.

22 COMMISSIONER LEMAN: Do you have a systematic
23 system of rotation of inspectors so it is not always
24 the same inspectors?

25 MR. TREMBLAY: That is automatic. It is the
26 secretary of the service who makes the programmes,
27 and we make it a matter of practice never to send
28 the same inspector more than once to the same caisse
29 populaire or, if he goes a second time, generally he
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2 of that. I must insist all these inspections, whether
3 in the local societies or the central, that I am the
4 only one with the authority to decide when and where --
5 the only one of the staff to make a decision on that.
6 It is always unknown to the local society. We never
7 give prior advice to the local society -- "Get ready,
8 we are coming".

9 COMMISSIONER LEMAN: It is a surprise audit?

10 MR. TREMBLAY: Surprise audit all the time.

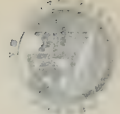
11 SENATOR VAILLANCOURT: And if we have some
12 suspicions we go two, three or four times.

13 MR. TREMBLAY: We go as often as necessary;
14 we repeat. Let us say we finish an inspection yesterday:
15 We may start again this morning, or next week. If we
16 have suspicion, we get after them until the problem
17 is settled.

18 COMMISSIONER LEMAN: There are now a very large
19 number of units in the system: What is the record of
20 units terminating business, going into liquidation, say,
21 over the last 20 years or so.

22 SENATOR VAILLANCOURT: 62 or 67.

23 MR. TREMBLAY: I have it here: Over the last
24 16 years there have been 70 closed societies. Out of
25 that there are 47 local or ordinary caisses populaires;
26 also, a kind of savings organization for use, one
27 being for the girls and the other one being the boys;
28 there were eleven of those. Those have been married
29 to the local society. They were really independent
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1 and four others. For your information, only five of
2 those 47 local societies were urban societies; 42
3 were rural. They would be mostly located in the
4 Gaspe Peninsula and Temiscamingue, and one of the reasons
5 for closing them is not for the lack of need of saving;
6 it is because it is practically impossible to have a
7 trained man or a trained person accepting work for
8 nothing and keep that little credit society with \$3,000
9 or \$4,000 of assets, and we keep on changing managers
10 and treasurers all the time. So, in some cases we had
11 to close those. The rest are spread all over the province:
12 There would be one in Chicoutimi; one in Sherbrooke,
13 and different localities.

14 COMMISSIONER LEMAN: Can the members usually
15 manage to join another caisse when that caisse is closed?

16 MR. TREMBLAY: It is not always possible because
17 you have to take into consideration in any rural district
18 the territory of the parish would be such that there
19 would be ten miles distance between the villages, and
20 it is hard to ask somebody to go ten miles away to the
21 other locality to do his caisse populaire business. So,
22 it is really a bad thing for the population to be
23 deprived of their services, because there are no
24 banks in those localities for miles and miles -- sometimes
25 25 or 40 miles.

26 COMMISSIONER LEMAN: These were just closed
27 and liquidated because they were not what we call viable?

28 MR. TREMBLAY: Without losses of any kind.

29 COMMISSIONER LEMAN: Are there some, for one
30 reason or another, that went bankrupt?



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1 MR. TREMBLAY: No. There is only one and it is
2 because they wanted to. We did everything we could to
3 help them out and, as a matter of fact, we had them out
4 of the hole at the time but they decided they were
5 smarter than the authorities. The Senator, himself,
6 went over there and we took a lot of trouble to try
7 to get them out of the ditch, but they said, "To heck
8 with you". We could have helped them out completely,
9 as we have done in other cases. We have ways and means
10 of getting out of bad spots.

11 COMMISSIONER LEMAN: It was just not well
12 managed. Has another caisse been founded in the same
13 territory since?

14 MR. TREMBLAY: Unfortunately not.

15 COMMISSIONER LEMAN: You also have in the
16 system an insurance organization, and here I am not
17 talking about a life insurance society, but the
18 insurance that you have organized to cover losses of
19 caisses that might occur for one reason or another.
20 Do you feel the insurance coverage now is sufficient
21 to cover all possible losses? Is there any record of
22 losses that the insurance did not quite cover?

23 SENATOR VAILLANCOURT: Yes, sometimes, but
24 we have a special fund: When the caisses populaires
25 pay their contributions to the central organizations,
26 and the regional organizations, we take 10 per cent
27 from that to organize a special fund -- a security
28 fund -- and sometimes it is for burglary, theft or
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1 MR. TREMBLAY: It has happened in a
2 few cases that the amount of coverage has been in-
3 sufficient to cover up the loss but it has been very
4 rare -- very rare. I might think of maybe five
5 over a period of the last ten or fifteen years. Now,
6 even in those cases there might be possibilities of
7 recovery over a certain period of years. Actually,
8 the insurance policy, the blanket policy that we have
9 I presently feel is very good. We were insured before
10 by private enterprise in the insurance field. Now
11 it is insured with our own insurance company and I,
12 personally, have worked on this problem for several
13 years starting back in 1935 and we have evolved a type
14 of blanket policy that suits absolutely well the needs
15 that we have, so I feel very strongly that we have
16 better protection than any insurance can give us
17 because they would not probably have special policies
18 for that type of business that we are handling.

19 COMMISSIONER LEMAN: What sort of physical
20 means of protecting assets that could be stolen or
21 lost are used for the small caisses? Do they keep
22 their valuables in the back as much as possible, or
23 keep as little as possible on the premises?

24 MR. TREMBLAY: They might have safes. Of
25 course, if it is a very small caisse populaire just
26 starting up they have no money and they will have a
27 cheaper type of safe, but it is less dangerous because
28 they have less money, they are small. As they grow
29 up they will feel the necessity to get a better safe
30 with a better chest and if they still do not have time



MR. TREMBLAY: It has happened in a

few cases that the amount of coverage has been insufficient to cover up the loss but it has been very rare -- very rare. I might think of maybe five over a period of the last ten or fifteen years. Now, even in those cases there might be possibilities of recovery over a certain period of years. Actually, the insurance policy, the blanket policy that we have I presently feel is very good. We were insured before by private enterprise in the insurance field. Now it is insured with our own insurance company and I, personally, have worked on this problem for several years starting back in 1935 and we have evolved a type of blanket policy that suits absolutely well the needs that we have, so I feel very strongly that we have better protection than any insurance can give us because they would not probably have special policies for that type of business that we are handling.

COMMISSIONER LAMAR: What sort of physical

means of protecting assets that could be stolen or lost are used for the small catasas? Do they keep their valuables in the back as much as possible, or keep as little as possible on the premises?

MR. TREMBLAY: The small catasas are

course, it is a very small catasas population just starting up they have no money and they will have a cheaper type of safe, but it is less dangerous because they have less money, they are small. As they grow up they will feel the necessity to get a better safe with a better chest and if they still do not have time



1 to build up the proper reserves then some regional
2 unions will help them out in supplying them with a
3 fairly good safe and chest until they can repay it
4 over a period of years or amortize it over a period
5 of years.

6 On that point we have been doing quite a
7 bit of work in recent years because of this epidemic
8 of thefts and burglaries to get the best we can for
9 the society. Of course, you cannot expect to have a
10 \$10,000 safe for a \$25,000 caisse populaire -- it
11 would be ridiculous, but we try to have the best for
12 the size of the society. If it so happens that their
13 safe is not a top quality safe, we take great care in
14 seeing that they carry the smallest amount possible in
15 cash and put all the securities in custody in the central.

16 COMMISSIONER LEMAN: I think I would like to
17 give some other Commissioners a chance to ask questions.

18 COMMISSIONER BROWN: You mentioned once before
19 that the centrals are trustees for the locals for
20 millions of bonds. You just now made reference to
21 the fact that the centrals act as custodians for the
22 bonds for the local caisses. Is this a general pro-
23 cedure? Does central usually hold the securities belonging
24 to the units?

25 MR. TREMBLAY: Yes, they have the proper
26 vaults and organization and proper insurance coverage,
27 armed guards and everything.

28 COMMISSIONER BROWN: I thought I would follow
29 that up because the questions I want to ask now are
30 more on the distribution of assets -- not distribution

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more on the distribution of assets -- not distribution



1 physically but the distribution as between types of
2 assets. In your brief you mention that cash is usually
3 maintained at a 15 per cent ratio, 5 per cent in the
4 local in the form of currency or till money and in
5 the chartered banks and 10 per cent on deposit with
6 the central. This is not a legal requirement but
7 I was going to ask you what is the general practice
8 with the centrals?

9 MR. TREMBLAY: The general practice on
10 what?

11 COMMISSIONER BROWN: Well, what percentage
12 do they keep in cash?

13 SENATOR VAILLANCOURT: At the central?

14 COMMISSIONER BROWN: Yes.

15 SENATOR VAILLANCOURT: Oh, 50 per cent.

16 COMMISSIONER BROWN: I notice that although
17 you say that it is generally maintained at 5 per cent
18 in the locals, the statistics do not show this. They
19 show it running at less than 5 per cent, is that correct?

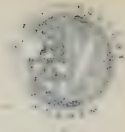
20 MR. TREMBLAY: I do not think so.

21 COMMISSIONER BROWN: On page 185 of the French
22 version.

23 MR. MORIN: You have 250 deposited in
24 central.

25 COMMISSIONER BROWN: We are talking about
26 cash, 5 per cent maintained at the locals. In this
27 case it shows a total of 14 plus three which is 17.6
28 out of 687, so that is less than 5 per cent.

29 MR. TREMBLAY: But the cash on hand must
30 be as low as possible to minimize the risk of burglary



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What is the ratio?

Mr. Tamm: The ratio is 15 per cent.

Yes?

Senator Villanov: Well, what is the ratio?

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be as low as possible to minimize the risk of burglary



1 or holdups. We do not have to keep hardly anything
2 and we put it in the central as soon as possible and
3 get some return on it and have it protected.

4 COMMISSIONER BROWN: All I am getting at
5 is you say it is maintained at 5 per cent.

6 MR. TREMBLAY: It is not the operational
7 rule. It will vary greatly between the local societies.
8 In certain cases they may need more than 5 per cent
9 in cash in the drawer because they have a bigger volume
10 of business transactions; in some other cases they
11 hardly need any.

12 COMMISSIONER BROWN: So this general rule
13 is very flexible.

14 MR. TREMBLAY: Well, it is flexible, yes.

15 COMMISSIONER BROWN: I just know it runs
16 down to about three in the local, but your overall
17 is about 9 per cent or 10 per cent.

18 MR. TREMBLAY: Yes, because of the big
19 amount that the central keep liquid.

20 COMMISSIONER BROWN: One question on that.
21 The deposits with the centrals that the centrals keep
22 in chartered banks, do you keep those just in a current
23 account or are they on deposit, that is, earning some
24 interest for you?

25 SENATOR VAILLANCOURT: No, current account.

26 COMMISSIONER BROWN: No interest? You
27 do not use 90 day deposits?

28 SENATOR VAILLANCOURT: No.

29 COMMISSIONER BROWN: Have you tried to use
30 90 day deposits?



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SENATOR VAILLANCOURT: No.

COMMISSIONER BROWN: Have you tried to use

90 day deposits?



1 SENATOR VAILLANCOURT: Yes, and for 90 days
2 we prefer to buy some government treasury bills.

3 COMMISSIONER BROWN: We have heard some
4 other financial intermediaries who said they were able
5 to put them on deposit for 90 days to get interest
6 and they could take them out before the 90 days and
7 sacrifice the interest if they needed them. Now,
8 have you tried this?

9 SENATOR VAILLANCOURT: Oh, sometimes we
10 have some special agreement with trustees or some
11 trust company for 90 days, but very few. We prefer
12 to borrow treasury board 90 days.

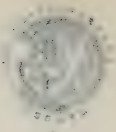
13 MR. TREMBLAY: If they could give us a
14 big rate of interest we think that we can do as well
15 as they can as a general rule.

16 COMMISSIONER BROWN: Your cash ratio on
17 a consolidated basis is running, as I said, around
18 10 per cent, -- it is just under 10 per cent. Now,
19 this is considerably higher than the credit unions
20 run on a consolidated basis. Can you explain why
21 you prefer to keep it around 10 per cent?

22 SENATOR VAILLANCOURT: You know our experience,
23 especially in 1939 when the situation was very, very
24 scarey, et cetera, and at that time we had some trouble.
25 I do not like to come back to this time. That is the
26 reason -- our experience.

27 COMMISSIONER BROWN: Your experience has
28 made you be very conservative?

29 SENATOR VAILLANCOURT: Absolutely.
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SENATOR VAILLANCOURT: Absolutely.



1 COMMISSIONER BROWN: Similarly your liquidity
2 ratio in the form of cash and marketable securities
3 runs around 50 per cent?

4 SENATOR VAILLANCOURT: 40 to 50 per cent.

5 COMMISSIONER BROWN: It was 35 per cent
6 before the war. Why did you change it to 50 per cent
7 after the war?

8 SENATOR VAILLANCOURT: The same argument
9 and the same answers -- our experience. In 1959,
10 which is not very long ago, we had some trouble with
11 some caisses populaires having only 30 per cent liquid
12 assets, and sometimes we would be obliged to sell our
13 bonds at a loss of ten points, et cetera. We did
14 not like that. That is the reason we prefer to go
15 too far on the one side than be in trouble on the
16 other side. That is our experience.

17 MR. TREMBLAY: It is a question of confidence.
18 Our people are sure they can get their money back when-
19 ever they want so you see by the result the answer. We
20 keep very much with loans and maybe would have less
21 assets. It is a question of confidence. People with
22 money do not like to put it somewhere where they feel
23 they cannot get it back when they need it.

24 COMMISSIONER MacKEEN: In the period
25 mentioned did you have abnormal withdrawals by depositors?

26 MR. TREMBLAY: In what period?

27 COMMISSIONER MacKEEN: 1939.

28 SENATOR VAILLANCOURT: 1959.

29 MR. TREMBLAY: 1939 it was the beginning
30 of the war so at the time we did not know what was coming



Similarly your liability

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of the depression.



1 so we felt that because of the unknown future --

2 COMMISSIONER MacKEEN: Well, 1939 was tight
3 money too, but that was just on account of withdrawals
4 at that time?

5 SENATOR VAILLANCOURT: Yes.

6 COMMISSIONER LEMAN: You could not get an
7 insurance policy against falling bond prices?

8 SENATOR VAILLANCOURT: No.

9 COMMISSIONER BROWN: You carry your own
10 insurance for that by distributing the maturities, and
11 I gather you have a suggested distribution of 10 per
12 cent each year over a ten year basis, but again you
13 are not able to follow this exactly?

14 SENATOR VAILLANCOURT: No.

15 COMMISSIONER BROWN: I notice you said it
16 was very unusual to go beyond ten years, but on page 104
17 it shows that $7\frac{1}{2}$ per cent are in this category. This
18 is an example of 278 caisses and on the same page it
19 shows that the centrals have 9.1 per cent beyond this
20 ten year category.

21 SENATOR VAILLANCOURT: Yes, but you know
22 some years ago in the province of Quebec the government
23 took all the debts of the school board organizations
24 in the province of Quebec and obliged us to change
25 them for bonds for 20 years at low interest rates,
26 et cetera, and we were obliged to take that.

27 MR. TREMBLAY: There was a forced conversion.

28 COMMISSIONER BROWN: This explains this.

29 MR. TREMBLAY: Yes, to a certain extent.

30 SENATOR VAILLANCOURT: And after that when we



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1 buy some federal bonds sometimes we will take 15 or 20
2 years for the federal or province, but after that not
3 after ten years.

4 COMMISSIONER BROWN: You refer to your
5 policies having been based on previous experience?

6 SENATOR VAILLANCOURT: Yes.

7 COMMISSIONER BROWN: Did that experience
8 with school bonds make you a little cautious about buying
9 school bonds?

10 SENATOR VAILLANCOURT: Oh yes. Now, ordinarily
11 in school bonds we take only the parts guaranteed by
12 the government. They guarantee these from one to five
13 years, board bonds. We do not take longer than that,
14 not guaranteed by the government.

15 COMMISSIONER BROWN: You mention that the
16 experience in 1959 influenced you to keep a larger
17 cash ratio?

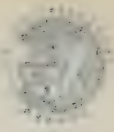
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19 contrary of that. We were forced by the circumstances
20 of the situation, et cetera, to reduce our cash.

21 COMMISSIONER BROWN: You misunderstood me,
22 Senator. I noticed from the statistics that before
23 1959 your cash was running around 7 per cent and 8 per
24 cent and after 1959, after that experience, you raised
25 it consciously or unconsciously to around 10 per cent?

26 SENATOR VAILLANCOURT: Yes.

27 COMMISSIONER BROWN: Now, is this going to
28 be just a temporary thing? Do you think you will
29 gradually work down to about 8 per cent again?

30 SENATOR VAILLANCOURT: I would say it has been



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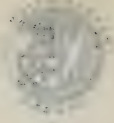


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2 COMMISSIONER BROWN: No, this is only
3 the last three years.

4 MR. TREMBLAY: What happens in a case like
5 this, you must remember that we deal with 1,250 odd
6 individual autonomous bodies. Now, there are local
7 conditions which are quite different in the same
8 province as big as the province of Quebec and what
9 happened in 1959 was that only a few units were a
10 little bit short of liquidity. Maybe they had been
11 the ones receiving instructions to change their
12 policies and to act differently, but maybe they thought
13 they were smarter than the ones telling them what to
14 do, and when they tasted the tight money period in
15 1959 they were converted and they had to because they
16 would have closed their doors, so they started to raise
17 their liquidity and they came up to the standard that
18 now we have peace with them. So that might explain
19 why in the graph you have a different line of percentage
20 that seems to be on the higher trend, but the rest of
21 the picture remains practically the same. There might
22 be some adaptation as we go on to be more careful in
23 one or two instances, but the trend is strong. The
24 percentage of liquidity that we recommend is generally
25 enough under normal circumstances to face any eventualities.

26 COMMISSIONER GIBSON: Senator Vaillancourt,
27 I would like to ask just a few questions about the
28 nature of your investment policy. Going back to one
29 of the questions Mr. Brown asked, about the character
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1 of your investment portfolio and its maturities on
2 pages 102, 103 and 104 of the original French brief,
3 you give this information and you suggest a certain
4 pattern for the portfolio and apparently this is the
5 same pattern that was suggested for the central and
6 the local.

7 COMMISSIONER VAILLANCOURT: Yes, that is
8 according to the laws.

9 COMMISSIONER GIBSON: But in fact they
10 differ quite a little. The central has more of what
11 you would call marketable securities and the local
12 has less.

13 SENATOR VAILLANCOURT: Yes.

14 COMMISSIONER GIBSON: This is for liquidity
15 reasons, I take it?

16 SENATOR VAILLANCOURT: Yes.

17 COMMISSIONER GIBSON: Now, the same thing
18 is true when you come to look at the term of the
19 securities. You suggest roughly 50 per cent under
20 five years, 50 per cent over five years, but actually
21 the locals and the centrals are more liquid than that?

22 MR. TREMBLAY: Central is more liquid,
23 yes.



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Yes.



1 COMMISSIONER GIBSON: Even the local shows
2 71 per cent under five years.

3 SENATOR VAILLANCOURT: Yes, but you know
4 that the central owns more federal bonds and you know
5 that the federal or provincials, they only have one
6 or two issues, ten years or twenty years, that is the
7 reason and the government bonds are more -- the market
8 is better than the other, that is the reason, and
9 after that this same local caisse populaire borrow
10 some money through their school board.

11 COMMISSIONER GIBSON: And that would be
12 serial bonds?

13 SENATOR VAILLANCOURT: Yes.

14 COMMISSIONER GIBSON: Some are payable every
15 year?

16 SENATOR VAILLANCOURT: Yes.

17 MR. TREMBLAY: There is another reason too,
18 Mr. Gibson; in the central it has been said a little
19 while ago that they have to keep a much higher
20 proportion of cash on hand.

21 COMMISSIONER GIBSON: Yes.

22 MR. TREMBLAY: No ---

23 COMMISSIONER GIBSON: So the suggested maturity,
24 it doesn't mean as much for the central as it does
25 for the local; the central will be more liquid?

26 MR. TREMBLAY: Yes.

27 COMMISSIONER GIBSON: Do the centrals do
28 much trading in securities in the sense of trying to
29 improve yields?

30 SENATOR VAILLANCOURT: No.



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1 COMMISSIONER GIBSON: You don't, for example,
2 when you are able to take a Province of Quebec bond
3 at a certain maturity and turn it into another one
4 with similar maturity and better yield, you wouldn't
5 do that?

6 SENATOR VAILLANCOURT: Generally, no, because
7 we figure when we buy some bonds, and so on, this
8 year we are glad to receive \$10 million or \$5 million,
9 and so on, and it all is selected every year for the
10 amount they are supposed to refund the money. We don't
11 speak of that.

12 COMMISSIONER GIBSON: So that in this particular
13 area you don't respond very actively to short-term
14 market changes and the security prices?

15 SENATOR VAILLANCOURT: No.

16 COMMISSIONER GIBSON: And there would be very
17 little if any trading, I take it, in the locals?

18 SENATOR VAILLANCOURT: Very little, but a
19 lot in some of the centrals where they have large
20 blocks.

21 MR. TREMBLAY: There may be switches in
22 certain cases.

23 COMMISSIONER GIBSON: That is what I was
24 thinking of, "switches" is a better word.

25 MR. TREMBLAY: But that will be rather rare.

26 COMMISSIONER GIBSON: Have you ever thought
27 of doing more of this as a means of enhancing your
28 economy?

29 SENATOR VAILLANCOURT: No, no. Our experience
30 is not like that. You know now that the situation of



COMMISSIONER GIBSON: You don't, for example,

when you are able to take a Province of Quebec bond at a certain maturity and turn it into another one with similar maturity and better yield, you wouldn't do that?

SENATOR VAILLANCOURT: Generally, no, because

we figure when we buy some bonds, and so on, this year we are glad to receive \$10 million or \$5 million, and so on, and it all is selected every year for the amount they are supposed to refund the money. We don't speak of that.

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1 the market has changed so rapidly, but I think it
2 would be better to play the safe side, and we know
3 that we place our money at such interest, and so on,
4 and at such time and another time in another amount,
5 and so on.

6 MR. TREMBLAY: What we have we hold

7 SENATOR VAILLANCOURT: Yes.

8 COMMISSIONER GIBSON: Are you influenced
9 in the locals in the amount of securities you hold by
10 the comparison of interest rates between securities
11 and what is being paid on loans at a given time?

12 MR. TREMBLAY: Yes, there would be an
13 influence there. If you have a caisse populaire with
14 only bonds in its portfolio and you have your loans
15 which are necessarily at a high rate of interest, that
16 will affect the revenues in the societies, and there
17 are some societies of that type where people seem to
18 be all on the rich side and there are no borrowers,
19 or very little, and on the other hand you sometimes
20 have the reverse situation, but there are plenty
21 of demands for loans. Of course, that society will
22 get a better revenue out of that money loaned to the
23 members and as the bond revenue will be less, well,
24 that will put them in a better position generally
25 speaking to have a better revenue out of those operations.

26 COMMISSIONER GIBSON: If bond holdings were
27 quite high would they push their loans a bit?

28 MR. TREMBLAY: Well, we never push the loans,
29 we just let them come. We are not there to show the
30 people how to get in debt; we are there to teach them

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1 how to get out of debt, so it is the reverse. We are
2 not in the business, strictly speaking, to do loans,
3 and that is the incidence of the type of business
4 we are doing. We are there to see that their needs
5 for credit are for useful purposes, so we will let
6 them come. We don't have to tell them how to spend
7 their money; they know it by themselves, but if
8 they come and ask caisse populaire to borrow for
9 what we think is an unproductive and non-useful purpose,
10 we just say no. So, that is about the way it works.

11 COMMISSIONER GIBSON: So, your security holdings
12 are based in part on how much of a need and demand
13 there is for loans and mortgages in the area?

14 MR. TREMBLAY: Yes.

15 COMMISSIONER GIBSON: If there is a large
16 demand for these the security holdings will be smaller
17 than otherwise, and vice versa?

18 MR. TREMBLAY: Right.

19 COMMISSIONER GIBSON: You are prevented by
20 law from investing in other provincial and municipal
21 securities than those with the Province of Quebec,
22 is this correct?

23 MR. TREMBLAY: Yes.

24 COMMISSIONER GIBSON: And do you find this
25 restrictive; would you like to have broader investment
26 powers?

27 MR. TREMBLAY: I don't see why. The basis
28 of co-operative savings and credit is to keep the
29 money in the localities where it has been produced,
30 so that the same principle will apply in any province



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1 that I know of.

2 SENATOR VAILLANCOURT: But we had some
3 experience on that before the law has been changed
4 in Quebec. Some local caisse populaire borrow money
5 in Vancouver and it had a bad result to some of the
6 other people from outside of the country, and so on,
7 and we said that it is not right for us or fair for
8 our members to take the money in Quebec or from some
9 locality and put their money outside of the country,
10 and so on.

11 COMMISSIONER GIBSON: We have heard quite a
12 few ---

13 SENATOR VAILLANCOURT: And we can't control
14 that.

15 COMMISSIONER GIBSON: We have heard quite
16 a few representatives of the financial world who would
17 like to have their investment powers widened. You
18 don't have such a feeling?

19 SENATOR VAILLANCOURT: No, not for us.

20 COMMISSIONER GIBSON: So, to sum up on your
21 bond transactions, you basically buy bonds to keep
22 them; you don't trade in them?

23 SENATOR VAILLANCOURT: No.

24 COMMISSIONER GIBSON: So that you don't have
25 what you call a trading staff; you have relatively
26 small investment departments in your centrals, do you?

27 SENATOR VAILLANCOURT: Well, you know when
28 the local caisse populaire asks to buy some bonds, and
29 so on, it is analyzed before that, the situation of
30 the locality, and so on, and Mr. Charron and the other



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1 men in the office study that and they can answer
2 yes or no or that the price is too high, and so on
3 and we changed after that the issue of the bonds.

4
5
6 You know, one caisse populaire had 40 persons
7 in the bond issue in 10 years and we have said it is
8 not good for you to take the other bonds and issuing
9 them for one, two, three, four, five years, and so on,
10 for the assets, and to receive the money every month,
11 and so on, and they changed it.

12 COMMISSIONER GIBSON: Do you centralize
13 your bond purchasing with the locals in the centrals
14 to a degree?

15 SENATOR VAILLANCOURT: Ordinarily with our
16 local caisse populaire they ask the central organizations
17 to furnish the bonds.

18 COMMISSIONER GIBSON: Do you advise on the
19 purchase of bonds?

20 SENATOR VAILLANCOURT: We purchase the bonds
21 from the dealers.

22 COMMISSIONER GIBSON: Yes.

23 SENATOR VAILLANCOURT: All the dealers in the
24 Province of Quebec; we have no special dealers, and
25 so on, and we don't control any dealers, and so on,
26 but we try to get people to buy such types of bonds,
27 and so on, and the market is better, and so on, but we
28 don't control ---



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2 COMMISSIONER GIBSON: What I am trying to
3 get at, Senator, is do the locals accept advice in
4 purchasing bonds from the centrals?

5 SENATOR VAILLANCOURT: Yes, generally, in
6 most cases.

7 COMMISSIONER GIBSON: It is a common practice
8 for the central to give advice to the local?

9 SENATOR VAILLANCOURT: Yes.

10 COMMISSIONER GIBSON: In the sort of securities
11 it ought to buy?

12 SENATOR VAILLANCOURT: Yes.

13 COMMISSIONER GIBSON: And even to purchase
14 them for them at times, I take it?

15 MR. TREMBLAY: And the sale would be done
16 by the central.

17 SENATOR VAILLANCOURT: Because when new bonds
18 arrive on the market every local caisse populaire can
19 buy 10,000 or 5,000, and so on, but if the central
20 arrived with half a million dollars at a better price,
21 than we can sell to our members at a better price.

22 COMMISSIONER GIBSON: Well, the centrals would
23 know many of the borrowers whose bonds they were
24 purchasing very well, wouldn't they; they would have
25 had a lot of experience with their securities?

26 SENATOR VAILLANCOURT: Yes.

27 COMMISSIONER GIBSON: And particularly the
28 municipalities. You must be one of the largest tenderers
29 in the market for municipal bonds in Quebec, is this
30 not true?



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1 SENATOR VAILLANCOURT: Yes.

2 COMMISSIONER GIBSON: Does this make the
3 market for municipal bonds in Quebec particularly
4 good, better than the rest of the country?

5 SENATOR VAILLANCOURT: I don't know, but I
6 think this is a good thing. We receive the reports
7 every day from the government on the situation on
8 every municipality, and so on, and we study that; we
9 review the market and we study the situation of these
10 municipalities, the towns and the cities and the
11 villages, and after that we say no or yes.

12 MR. TREMBLAY: What do you mean by good market
13 but low yield?

14 COMMISSIONER GIBSON: Good prices for the
15 sale of the bonds.

16 MR. TREMBLAY: Well, in our case we don't mind
17 that because it will help to finance some local bodies.
18 If we were in search of profit we might be interested
19 in something else.

20 COMMISSIONER GIBSON: I don't know, but I
21 suppose your standards would have an influence on many
22 of the municipalities with whom you deal?

23 SENATOR VAILLANCOURT: Sometimes, yes, sure.

24 COMMISSIONER LEMAN: Commissioner Gibson was
25 not suggesting this is a bad thing.

26 SENATOR VAILLANCOURT: Oh no.

27 COMMISSIONER BROWN: I was interested in this
28 because most buyers usually say that they are paying
29 too high a price.

30 THE CHAIRMAN: We will adjourn now for about



SENATOR VAILLANCOURT: Yes.

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2 --- Recess

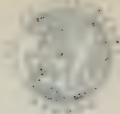
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4 THE CHAIRMAN: We shall now resume.

5 COMMISSIONER GIBSON: Senator Vaillancourt,
6 I would like to ask you one more question about the
7 securities investment practice, and it is a question
8 on the valuation of your investments as to how, if at
9 all, it affects your investment policy. I take it that
10 you value your investments both in the locals and
11 the centrals at book value?

12 SENATOR VAILLANCOURT: Yes.

13 COMMISSIONER GIBSON: Now, when the book
14 value is above the market value, does this mean that
15 you are very loathe to sell these securities?

16 SENATOR VAILLANCOURT: That is for the reason
17 that we don't speculate on our bonds, to sell and change,
18 and so on; we fix the price on our books and we wait
19 until the maturity of the bonds.



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1 Ordinarily we pay one or points lower than par, and
2 when the bonds mature we receive one or two per cent
3 more benefit.

4 COMMISSIONER GIBSON: Is the accounting practice
5 of always showing the securities at book value and
6 not rating specific reserves against them when they
7 go down?

8 SENATOR VAILLANCOURT: No.

9 COMMISSIONER GIBSON: This is another reason
10 for not trading the bonds?

11 SENATOR VAILLANCOURT: Yes.

12 COMMISSIONER GIBSON: Turning to your lending
13 business, a relatively small part of the assets of the
14 caisse populaire are in personal loans; it is about
15 8 or 9 per cent?

16 SENATOR VAILLANCOURT: Yes.

17 COMMISSIONER GIBSON: Is there any trend here?
18 Are you tending to increase this type of business?

19 SENATOR VAILLANCOURT: Yes, we try to increase
20 that, but we do business only with our own members.
21 We are not in the field at large, as our other organizations.
22 As I have said before, the first thing for us is the
23 moral guarantee, and if people come to borrow some
24 money to go for a vacation -- you know the advertisement,
25 "Go on vacation now and pay tomorrow" -- and we are
26 afraid of that. We prefer to say, "Save this year
27 and go on vacation next year."

28 When you take the number of personal loans,
29 we have over 100,000 loans last year, and every year --
30 more than that -- and we are increasing every year.



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1 COMMISSIONER GIBSON: The average size of
2 the loan is quite small, isn't it?

3 SENATOR VAILLANCOURT: They are between 100
4 and 500 on average.

5 COMMISSIONER GIBSON: And your medium interest
6 rate is quite low too?

7 SENATOR VAILLANCOURT: Yes.

8 COMMISSIONER GIBSON: It is around 7 per cent?

9 SENATOR VAILLANCOURT: 7 per cent, but
10 ordinarily it is 6 per cent plus life insurance.

11 COMMISSIONER GIBSON: The 7 per cent medium
12 figure includes the cost of insurance?

13 SENATOR VAILLANCOURT: Sometimes it includes
14 that, and that is simple interest: 6 per cent, I suppose,
15 for \$100 over 12 months, but we charge interest and
16 I suppose the borrowers are supposed to refund the loan
17 in 12 months, and we give \$100 to the borrowers.

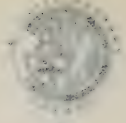
18 COMMISSIONER GIBSON: This is a true interest
19 rate?

20 SENATOR VAILLANCOURT: Yes, true interest,
21 and after one month they refund \$10 and we charge
22 6 per cent on \$100 for one month, and the next month
23 on \$90; and at the end of the year, instead of paying
24 10 or 11 per cent you pay 6 per cent, and you pay
25 \$3.50 for one year for \$100.

26 COMMISSIONER GIBSON: So your rates are really
27 very competitive, aren't they?

28 SENATOR VAILLANCOURT: Yes.

29 MR. TREMBLAY: Mr. Gibson, I have something
30 to add to this statement: In 1961 we did exactly



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MR. TRENDLER: Mr. Gibson, I have something

to add to this statement: In 1961 we did exactly



1 115 thousand personal loans for \$152 million, but in
2 the mortgage section there has been quite a bit of
3 personal loans which have been booked as mortgages.
4 They would be the consolidation of debts: We have
5 a member comes along and he is loaded up with debts
6 all over the place -- small loan companies, merchants,
7 hospital bills and taxes, and instead of just making
8 him another loan on which he will have to make some
9 more instalments, which are already too heavy, we
10 will take the whole thing and pay the other debts
11 immediately, and we consolidate with the mortgage on
12 his property. So, there are a lot of our personal
13 loans that are really booked as mortgages in our state-
14 ments.

15 COMMISSIONER GIBSON: The reason they are
16 under mortgages is that you have taken the mortgage
17 as a security?

18 MR. TREMBLAY: Yes.

19 COMMISSIONER GIBSON: But it is really a personal
20 loan?

21 MR. TREMBLAY: Yes, and there is another
22 reason, and that is because there is a limit by
23 each caisse populaire of \$500 or \$1,000 at the general
24 meeting, and we can't go beyond that unless the member
25 furnishes some kind of security, and a mortgage is
26 an acceptable kind of security.

27 COMMISSIONER GIBSON: Would you have any idea
28 what proportion of your mortgages might be loans of
29 this character?

30 MR. TREMBLAY: That would be pretty hard to

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his property. So, there are a lot of our personal

immediately, and we consolidate with the mortgage on

will take the whole thing and pay the other debts

more installments, which are already too heavy, we

him another loan on which he will have to make some

hospital bills and taxes, and instead of just making

all over the place -- small loan companies, merchants,

a member comes along and he is loaded up with debts

They would be the consolidation of debts: We have

personal loans which have been booked as mortgages.

the mortgage section there has been quite a bit of

115 thousand personal loans for \$125 million, but in



1 estimate, but I would say it may be 5 per cent or 10
2 per cent -- maybe 15 per cent.

3 COMMISSIONER GIBSON: So it might actually
4 double your personal loan figure?

5 MR. TREMBLAY: I think it would double at
6 least the amount in money -- not in number.

7 COMMISSIONER BROWN: If it is a mortgage loan
8 do you ask the purpose of the loan in the same way?

9 MR. TREMBLAY: The same way. Nobody can
10 borrow unless he specifies the purpose.

11 COMMISSIONER BROWN: If he has borrowed for
12 a foolish purpose elsewhere and wants to borrow on
13 a mortgage to repay this foolish loan ...?

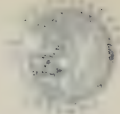
14 MR. TREMBLAY: It may be a pretty good way
15 to satisfy his need and to teach him a proper lesson
16 so that the next time he will know where to go to
17 borrow and he will be willing to accept somebody
18 else's criteria about the purpose of a loan. They
19 are really checked by the credit commission and if
20 they make a foolish move we try to educate them and
21 talk them out of the expenditure if it is not necessary.

22 COMMISSIONER GIBSON: Do the by-laws of the
23 individual caisses usually specify a \$500 or \$1,000
24 limit for an unsecured personal loan?

25 MR. TREMBLAY: It is not a by-law. It is
26 a resolution of a general meeting. They may change
27 every year.

28 COMMISSIONER GIBSON: This is a meeting of
29 the individual caisses?

30 MR. TREMBLAY: No, the members of that individual



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MR. TREMBLAY: No, the members of that individual



caisse.

COMMISSIONER GIBSON: Yes, and it is usually \$500 or \$1,000?

MR. TREMBLAY: Well, it is \$500 when you organize a new caisse populaire, and as it gets bigger it is increased to \$700 and \$1,000. In certain cases it may be \$2,000, but those instances are rare. In some cases there may be no maximum at all, but I only know of a couple of instances in the province.

COMMISSIONER LEMAN: Is there a formula? Is it based on a percentage of the total assets?

MR. TREMBLAY: It is a question of a local decision.

COMMISSIONER LEMAN: Does the federation have a suggested formula?

SENATOR VAILLANCOURT: No.

MR. CHARRON: It depends on the growth of the caisse populaire and the number of loans among members.

SENATOR VAILLANCOURT: It depends on the size of it.

MR. TREMBLAY: The size and needs and local conditions. It is like the size of a hat: It depends on the size of the head.

COMMISSIONER BROWN: On page 119 it would appear that there are 101 locals that do not lend on mortgage?

MR. TREMBLAY: Yes. They would be the small ones. In the by-laws we are obliged to make all the small loans first. We are not allowed to go into the



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1 larger loans until we have filled all the requests for
2 the small loans. So, in the small societies just
3 beginning they have to keep a high liquidity, first
4 of all, until they have taken in the sense and speed
5 of the operation of the society, and after they
6 have started to make small loans and they have excess
7 money they move into the mortgage field, and the
8 first mortgages they will make will be very small --
9 maybe \$1,000 or \$2,000 -- and they move on gradually
10 until they are at their optimum capacity.

11 COMMISSIONER BROWN: Statistics sometimes
12 produce some extraordinary results, and I personally
13 am curious about the one caisse populaire that loans
14 money at $2\frac{1}{2}$ per cent and has \$27 out. How does this
15 happen.

16 MR. TREMBLAY: That must be the residue of
17 a former loan that has been made, maybe to a public
18 body like a waterworks. It may be a kind of co-op
19 society for waterworks in a small village, and at
20 the time $2\frac{1}{2}$ per cent in that locality might have been
21 the rate. That may be the residue on a loan that
22 has been on the books for 20 years.

23 COMMISSIONER BROWN: In that case this would
24 be a caisse that has been operating for some time
25 and would have other loans?

26 MR. TREMBLAY: Yes.

27 COMMISSIONER BROWN: So it would probably
28 have other loans out at different rates?

29 MR. TREMBLAY: Yes, but in these cases it
30 is probable you will find that the rates of the loans

farther loans until we have filled all the requests for the small loans. So, in the small societies that beginning they have to keep a high liquidity, first of all, until they have taken in the sense and speed of the operation of the society, and after they have started to make small loans and they have excess money they move into the mortgage field, and the first mortgages they will make will be very small -- maybe \$1,000 or \$2,000 -- and they move on gradually until they are at their optimum capacity.

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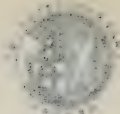
have other loans out at different rates?

MR. TREMBLAY: Yes, but in these cases it is probable you will find that the rates of the loans



1 are 4 or 5 per cent. Our people are very conservative
2 that way. In the locality I have in mind, it is
3 rather small and they have over \$1 million in the
4 caisse populaire, and there are two branches of banks,
5 and they seem to be loaded up with money and they don't
6 know what to do with it, and they make loans at very
7 low interest rates because there is no demand. They
8 cannot loan outside the locality, so they make loans
9 at 4 or 5 per cent.

10 COMMISSIONER BROWN: My point was, presumably,
11 because of the statistics some of these will be appearing
12 in various places, and we go back to an earlier question
13 about different types of interest on the same types
14 of loans in the same caisse. Would there be cases
15 where this exists?



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of loans in the same casas. Would there be cases

where this exists?



1 MR. TREMBLAY: If my memory is good, this
2 is the only caisse populaire and this is the only
3 loan that is done there and that is the rate.

4 COMMISSIONER BROWN: It probably only
5 relates to children?

6 MR. TREMBLAY: Yes.

7 COMMISSIONER BROWN: It looked like a
8 good rate.

9 COMMISSIONER GIBSON: The centrals themselves
10 make some personal loans?

11 SENATOR VAILLANCOURT: No.

12 COMMISSIONER GIBSON: What are the \$3 million
13 that show as loans that the centrals make?

14 MR. TREMBLAY: That will be to local
15 societies. They cannot make personal loans.

16 COMMISSIONER GIBSON: The centrals cannot
17 make loans to individuals at all?

18 MR. TREMBLAY: No, they are not allowed to.

19 COMMISSIONER GIBSON: If you take the
20 consolidation table on page 154 and look at the total
21 of loans for the local caisses and the central caisses,
22 they are added together. Why does this not appear?

23 MR. TREMBLAY: Loans to local societies
24 by the centrals are on notes. These are on notes with
25 bonds as security.

26 COMMISSIONER GIBSON: So it appears on
27 both sides of this?

28 MR. MORIN: On the consolidation side you
29 are adding the loans that the central makes to the
30 caisses populaires, less the loans of the local caisses



MR. TREMBLAY: If my memory is good, this

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ALWAYS AVAILABLE TO

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MR. TREMBLAY: No, they are not allowed to.

COMMISSIONER GIBSON: If you take the

consolidation table on page 124 and look at the total

of loans for the local classes and the central classes,

they are added together. Why does this not appear?

MR. TREMBLAY: Loans to local societies

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bonds as security.

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MR. MORIN: On the consolidation and you

are adding the loans that the central makes to the

classes populations, less the loans of the local classes



1 populaires to the central. This is the figure that
2 appears there.

3 COMMISSIONER GIBSON: Does that mean there
4 are other loans that the central makes?

5 MR. MORIN: No. I am sorry, yes, it might
6 appear as other loans.

7 MR. TREMBLAY: Instead of a bond issue
8 it may be a straight loan to some kind of public
9 body there, that would be considered as an investment
10 in reality.

11 COMMISSIONER GIBSON: There would be no
12 personal loans or anything like that included in this
13 figure?

14 MR. TREMBLAY: No, never.

15 COMMISSIONER LEMAN: I understood that
16 the officers of the locals cannot borrow from their
17 local?

18 MR. TREMBLAY: The credit commission
19 supervises this.

20 COMMISSIONER LEMAN: Where can they go to
21 get loans?

22 SENATOR VAILLANCOURT: They change; the
23 board of director changes with the members of the
24 credit committee, and the credit committee go to
25 the board of directors.

26 MR. TREMBLAY: They perhaps borrow from
27 the banks or other finance organizations.

28 MR. CHARRON: This involves a question of
29 directing a charge to the borrowers.



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COMMISSIONER LEMAY: Where can they go to get loans?

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Toronto, Ontario

SENATOR VAILLANCOURT:

Voyez-vous, les membres de la Commission de
credit ne peuvent pas emprunter, pas plus que ceux du
Comité de surveillance, afin de ne pas se favoriser eux-
memes. Or, si cette situation se présente dans une
petite localité ou il n'y a pas beaucoup de monde, le
commissaire de crédit qui veut emprunter peut démissionner;
il est alors remplacé par un membre du Comité de
direction, et est par la suite nommé au Comité de
direction. C'est de cette façon que l'on contourne la
difficulté.

MR. TREMBLAY: Perhaps some of the wealthier
members might make a personal loan to help an officer
who is deprived of the right of borrowing. That has
been seen to happen.

COMMISSIONER LEMAN: Does that tend to
discourage some people from accepting a particular
function?

SENATOR VAILLANCOURT: No, that is a
protection, but if the law is changed so that a member
of the credit commission or the supervisors can borrow
money guaranteed by savings, that would be better.
Supposing, for instance, that I am a member of the
credit commission and have \$1,000 in savings, and I
said they could use that money because I have a note
from a borrower of the caisse populaire to the extent
of \$100,000 guaranteed by a savings account, that
would be all right.

COMMISSIONER LEMAN: You would like to
give authority to the locals to lend to any member,
even though he might be an officer, on the security of



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COMMISSIONER LEWIS: You would like to
give authority to the locals to lend to any member,
even though he might be an officer, on the security of



1 what that member has in the caisse populaire itself?

2 SENATOR VAILLANCOURT: Yes.

3 COMMISSIONER LEMAN: That is a perfectly
4 safe loan?

5 SENATOR VAILLANCOURT: Absolutely.

6 COMMISSIONER GIBSON: Do caisses populaires
7 participate in some of the provincial government lending
8 programs from time to time in order to help farmers
9 and fishermen and so on? You do not participate in
10 any of the federal programs, do you?

11 SENATOR VAILLANCOURT: No.

12 COMMISSIONER GIBSON: Do you participate
13 in the farm improvement program or the National
14 Housing Act?

15 SENATOR VAILLANCOURT: We asked the federal
16 government for permission to so participate but it
17 refused.

18 MR. TREMBLAY: We are not a bank.

19 SENATOR VAILLANCOURT: We are not a bank
20 and we have a provincial charter. The federal
21 government does business only with people with federal
22 charters.

23 COMMISSIONER GIBSON: Apart from that point,
24 which is a technical point, do you think you should
25 be involved in these programs like farm improvement
26 and National Housing Act, and so on? Would you like
27 to be so involved?

28 SENATOR VAILLANCOURT: Not as far as I
29 am concerned, because we already have plenty of
30 requests for loans. We cannot furnish all the money



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in the farm improvement program of the National

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1 that people want and ask for. We have now plenty
2 of requests.

3 COMMISSIONER GIBSON: You have quite a
4 lot of liquidity though, Senator.

5 SENATOR VAILLANCOURT: We cooperate in
6 respect of housing loans.

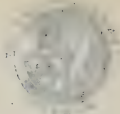
7 COMMISSIONER BROWN: Do you lend money
8 under the National Housing Act?

9 MR. TREMBLAY: No, in respect of family
10 housing.

11 MR. CARON: We cooperate in respect of the
12 family housing project.

13 SENATOR VAILLANCOURT: We cooperate with
14 Central Mortgage organizations here, L'habitation
15 familiale. In the past the provincial government
16 was paying 3 per cent on loans in respect of new
17 houses, and 3 per cent of the interest was a rebate.
18 We do not have the same thing in respect of federal
19 loans. Now the provincial government has changed
20 the law and given the same 3 per cent in respect of
21 federal loans for new houses and so on. We probably
22 now will go along with the federal government because
23 we have agreed with the federal government to lend
24 some money for new houses any place in the country.
25 In the past, because we did not receive the 3 per cent
26 from the province in rebate we did not so participate.
27 Now that the provincial government has agreed to allow
28 that rebate, we shall participate. These loans are
29 guaranteed to 90 per cent.

30 COMMISSIONER LEMAN: Senator, do you mean you



Journal of the House of Commons

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now will go along with the federal government because

we have agreed with the federal government to lend

some money for new houses any place in the country.

In the past, because we did not receive the 3 per cent

from the province in rebate we did not so participate.

Guaranteed to 30 per cent.

STONER LEWIS: Senator, do you mean you



1 are an approved lender under the National Housing Act?

2 SENATOR VAILLANCOURT: Yes.

3 COMMISSIONER LEMAN: You are an approved
4 lender?

5 SENATOR VAILLANCOURT: Yes.

6 COMMISSIONER GIBSON: Is this in respect
7 of local caisses or centrals?

8 SENATOR VAILLANCOURT: Local caisses.

9 MR. TREMBLAY: At first the provincial
10 legislature forbid this interest rebate on any type
11 of loan other than those made under provincial
12 regulation, so there could be no marriage. There
13 was pressure on our people to borrow from the caisses
14 populaires and to get 6 per cent with a 3 per cent
15 rebate which would give a net cost of 3 per cent on
16 interest. This was obviously better than Central
17 Mortgage in respect of which there was no 3 per cent
18 rebate. This, of course, has changed because the
19 two legislative regulations are the same now.

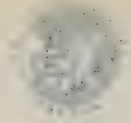
20 SENATOR VAILLANCOURT: There now exists
21 the same regulation in respect of both the federal
22 and provincial governments.

23 COMMISSIONER GIBSON: Do you think it would
24 be desirable to be involved in these farm improvement
25 and N.H.A. loan programs?

26 SENATOR VAILLANCOURT: Yes.

27 MR. CARON: Yes. We are now ready to
28 participate.

29 COMMISSIONER GIBSON: I was referring
30 particularly to those plans other than the National Housing



1. ... under the National Housing Act?

2. SENATOR VAILLANCOURT: Yes.

3. COMMISSIONER LEWIS: You are an approved

4. lender?

5. SENATOR VAILLANCOURT: Yes.

6. COMMISSIONER GIBSON: Is this in respect

7. of local catfish or catfish?

8. SENATOR VAILLANCOURT: Local catfish.

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10. legislature forbid this interest rebate on any type

11. of loan other than those made under provincial

12. regulation, so there could be no mortgage. There

13. was pressure on our people to borrow from the catfish

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26. SENATOR VAILLANCOURT: Yes.

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28. participate.

29. COMMISSIONER GIBSON: Yes.

30. particularly to those plans other than the National



1 Act, such as the farm improvement loan plan.

2 MR. CARON: In respect to the farm improvement
3 plan, that is another thing, and the federal government
4 refuses to allow us to participate in this at this time.
5 We requested to be allowed to participate but the
6 federal government has absolutely refused permission.

7 COMMISSIONER GIBSON: We are just trying
8 to find out how you think about these things. Would
9 you like to participate if the federal government
10 extended the regulations?

11 SENATOR VAILLANCOURT: If we are allowed
12 to participate in the same way as National Housing
13 organizations we are ready to do so, but the federal
14 government has refused permission.

15 THE CHAIRMAN: I suppose some of your
16 loans are in point of fact for farm improvement?

17 SENATOR VAILLANCOURT: Yes.

18 THE CHAIRMAN: What difference would it
19 make whether you made loans under the federal legis-
20 lation or loans the way you do now?

21 SENATOR VAILLANCOURT: We agree in that
22 regard but the federal government refuses to accept us.

23 THE CHAIRMAN: Would there be any difference
24 from your point of view?

25 SENATOR VAILLANCOURT: No, absolutely none.
26 We are now ready to participate.

27 MR. TREMBLAY: They have a counterpart
28 legislation in the province of Quebec in respect of
29 all of those loans, but most of the time it is not
30 applicable for some unknown reason.



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SENATOR VAILLANCOURT: No, absolutely none.

We are now ready to participate.

MR. TREMBLAY: They have a counterpart

legislation in the province of Quebec in respect of

all of those loans, but most of the time it is not

applicable for some unknown reason.



1 COMMISSIONER GIBSON: In respect of the
2 question of interest rates on loans, it is indicated
3 in the brief that they change rather gradually. In
4 other words they do not respond quickly to surpluses
5 of cash or competition in marketing conditions, is
6 that correct?

7 MR. TREMBLAY: Yes.

8 COMMISSIONER GIBSON: Would the interest
9 rates, for example, in a large caisse with lots of
10 money in personal loans change more promptly following
11 changes in credit conditions?

12 MR. TREMBLAY: It depends on the pattern
13 of interest rate on loans in the books. If they
14 have a lot of mortgages at a fairly low rate of
15 interest, that being long term, they will not be able
16 to benefit immediately from a higher rate of interest,
17 even if they do change their interest rate on loans.
18 It would take a little while before it would make any
19 difference. It would be easier to make a change in
20 the larger caisses because they have ways and means of
21 doing this. However, in the smaller units the change
22 will be gradual. It takes quite a while before a
23 farmer or someone in a small locality understands that
24 the rate of interest has gone up from 6 per cent to
25 7 per cent. One must be very sophisticated in order
26 to make these individuals understand. It is the
27 same money and it is the same loan, and this is their
28 own business. If they are satisfied to lend at 6 per
29 cent, that is the end of it. These people are rendering
30 each other mutual services. We tell them that the rate



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1 of interest they are charging is too low and they say:
2 "Yes, we know it is lower than somewhere else", but
3 they do not do anything about it.

4 COMMISSIONER GIBSON: In other words, when
5 you have a heavy demand for loans you do not ration
6 that demand by raising the interest rate?

7 MR. TREMBLAY: Oh, no, never.

8 COMMISSIONER BROWN: Do you try to attract
9 more money by raising the interest rate on deposits?

10 MR. TREMBLAY: It does not attract more
11 money. There are a lot of caisses where the rate of
12 interest is far below other institutions, and they
13 still come back to it.

14 SENATOR VAILLANCOURT: Service is the
15 principal thing involved.

16 COMMISSIONER GIBSON: In respect to the
17 question of response to credit conditions and monetary
18 conditions, you have quite an interesting chart at
19 page 148, and another at page 150. You have a
20 summary in the second chart showing a comparison between
21 the monthly changes in deposits and the monthly changes
22 in loans. This shows quite a close relationship,
23 particularly in the second chart. The loans seem to
24 follow drops in the deposits fairly quickly. I
25 presume this is because there was less new money
26 coming in so fewer loans were made; is that what it
27 boils down to?

28 MR. TREMBLAY: It has to follow this because
29 in these caisses the liquidity goes out first. The
30 first thing they know is that they have to respond; they



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1 cannot do anything else.

2 COMMISSIONER GIBSON: I suppose it depends
3 on how much liquidity that they have, and some of them
4 I note have a good deal.

5 SENATOR VAILLANCOURT: Yes.

6 COMMISSIONER GIBSON: This shows quite a
7 rapid response.

8 SENATOR VAILLANCOURT: Yes.

9 COMMISSIONER GIBSON: If a small caisse
10 finds that the money is not coming in they cannot
11 make as many loans, is that what they do?

12 MR. TREMBLAY: They stop the big loans first,
13 and if they are still short they stop lending completely.
14 Then they go out and get after the borrowers trying
15 to collect the loans, and then they fall out of the
16 bond market. If they lose too much money they then
17 try to borrow from the centrals until the situation
18 settles itself.

19 COMMISSIONER GIBSON: They ask the borrowing
20 customers to wait for a month or two?

21 MR. TREMBLAY: Yes, they postpone requests.

22 COMMISSIONER GIBSON: Yes, it is all done
23 through direct action like that and not through changing
24 the incentives in respect of interest rates and that
25 sort of thing?

26 MR. TREMBLAY: Yes.

27 COMMISSIONER GIBSON: This chart indicates
28 that the figures are adjusted seasonally. Are these
29 seasonal adjustments or do you run a moving average
30 throughout?



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1 MR. MORIN: There are two moving averages.

2 COMMISSIONER GIBSON: You do not have a
3 seasonal average?

4 MR. TREMBLAY: No. You see, there are
5 fluctuations in December and August.

6 COMMISSIONER GIBSON: Yes, it looked that
7 way.

8 MR. TREMBLAY: Yes, that situation exists
9 there because we are not able to have a full moving
10 average for twelve months.

11 COMMISSIONER BROWN: These are averages,
12 so some credit unions will be borrowing much more
13 than others. Is there any pattern in this
14 regard? Do the ones in the cities have a tendency
15 to fluctuate more than the ones in the country?

16 SENATOR VAILLANCOURT: In the country especial-
17 ly they fluctuate more than the others.

18 COMMISSIONER BROWN: The country ones vary
19 more than the city ones?

20 SENATOR VAILLANCOURT: Yes, in the summer-
21 time and in the wintertime.

22 MR. TREMBLAY: If you consider a large
23 city you will see that there are large industries
24 and it is improbable, unless you have a major crisis,
25 that there will be complete lack of employment. Whereas,
26 in certain small towns where there is only one single
27 industry, there might be a strike or a business recession
28 in the particular line of business, let us say textiles,
29 for instance, and that locality will be hit hard. That
30 is, however, an accident within the whole pattern.. In



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1 respect of farmers, when prices of farm products are low,
2 all the farmers throughout the province will be hit
3 hard at the same time, and that is probably the explanation
4 for those changes.

5 COMMISSIONER GIBSON: I should like to ask
6 one or two questions in respect of mortgages. You
7 give very full information in regard to your mortgage
8 practices so I have very few questions.

9 You have indicated earlier that when the
10 credit union -- I am sorry, when a caisse populaire
11 starts it does not make mortgage loans, but makes
12 personal loans. However, as that populaire develops
13 to a certain size of liquidity it commences in the
14 mortgage business. I presume this is still the
15 pattern, is it?

16 MR. TREMBLAY: That is the practice.

17 COMMISSIONER GIBSON: Yes, and is that
18 trend toward more mortgage loans or less mortgage
19 loans in proportion to the size of the caisse
20 populaire?

21 MR. TREMBLAY: The trend may show in the
22 figures as being toward more mortgage loans in the
23 larger caisses populaires because of the size. If
24 you have ten mortgage loans at \$5,000 each and compare
25 that to one larger mortgage loan it does not compare
26 properly. I would not say there is a shift from one
27 type of loan to another type. This follows a different
28 pattern. The caisses make the smaller loans first. They
29 have priority, and following that, if there is enough
30 money left, they will enter the larger field.



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1 SENATOR VAILLANCOURT: Yes, as an example
2 suppose we receive an application for a mortgage loan
3 of \$2,000 and we receive at the same time a demand
4 from 20 people for \$100 each. The note will be
5 passed first and then the others.

6 COMMISSIONER GIBSON: But as the credit
7 unions grow in size and have more funds to disburse
8 they tend to make more mortgage loans and deal more
9 with the larger needs of their members?

10 SENATOR VAILLANCOURT: Yes.

11 COMMISSIONER GIBSON: And that is a trend
12 you expect to continue?

13 SENATOR VAILLANCOURT: Yes.

14 COMMISSIONER GIBSON: In the mortgage business
15 do you make many mortgages on existing properties as
16 opposed to new houses?

17 MR. TREMBLAY: Yes, there are quite a few
18 of those. What is the proportion I do not know.

19 SENATOR VAILLANCOURT: I think it is a 50-50
20 thing roughly.

21 MR. TREMBLAY: I would say roughly 50-50.
22 You see, that is not the point. It has no bearing
23 at all on the decision of the board whether it is
24 an old property or a new one. Oftentimes an old
25 property has more value because it has been built
26 better than the new ones and with better material
27 and just because it is 20 or 25 years old, if it is
28 in a good state of repair, it is just as good value
29 as security as a new home. On the other hand, this
30 is not the basic factor in accepting a loan. The basic



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1 factor is the moral credit of the individual. If he
2 is a credit-worthy man we will accept the security
3 no matter what is the type of building -- new or old.

4 COMMISSIONER GIBSON: Your mortgage loans
5 are all individual loans; you do not make loans to
6 builders so that where they are made it requires the
7 same amount of work, you have to appraise it and do
8 the various things anyway.

9 SENATOR VAILLANCOURT: Yes.

10 COMMISSIONER GIBSON: I am sorry, you do
11 give statistics on this, on page 192 you have some
12 statistics. Do you make many mortgage loans outside
13 the housing field?

14 MR. TREMBLAY: On page 193 you have an
15 analysis here of utilization of the loans by class
16 of borrowers and (b) at the top is for the purchase
17 of real estate which would be lands and buildings
18 and it would be mostly housing and in (c) it is
19 for repairs of buildings and other purposes. This
20 "other purposes" might cover some of the things I said
21 a little while ago -- consolidation of debts and the
22 like, but it would be mostly for housing purposes.

23 COMMISSIONER GIBSON: You would not make
24 loans for building an apartment or a commercial building
25 and that sort of thing?

26 MR. TREMBLAY: There may have been a few
27 for very small apartment buildings or for two tenants.
28 It is permitted by the provincial law to allow to
29 provide houses with a tenant but not for a big project.

30 COMMISSIONER BROWN: I just have one question.



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STATISTICAL SECTION

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1 On page 191 you have the designations of different
2 kinds of borrowers. What is the one "aux autres
3 entreprises"?

4 MR. TREMBLAY: It would be other than
5 farmers, fishermen, co-op societies.

6 COMMISSIONER BROWN: What does that cover
7 because these are averaging \$4,000 alone?

8 MR. MORIN: This classification was asked
9 by the provincial government.

10 MR. TREMBLAY: This classification is the
11 result of negotiations between the Bank of Canada,
12 Central Mortgage and Housing Corporation and the Federal
13 Department of Statistics and the Provincial Department
14 of Statistics, in order to have a report in such
15 a form that it will be comparable with the counter-
16 parts in other provinces.

17 MR. MORIN: They were interested in statistics
18 about farmers and fishermen and co-op societies.

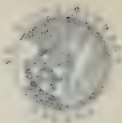
19 COMMISSIONER BROWN: What are these others?

20 MR. MORIN: It is other members in cities
21 and all other members except fishermen and farmers.

22 COMMISSIONER BROWN: What are these -- small
23 businesses?

24 MR. TREMBLAY: No, not small businesses, the
25 workers in the cities and workers in the rural areas
26 are all other members.

27 COMMISSIONER BROWN: I am not talking about
28 the one on other members, but the one on other enter-
29 prises?
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1 MR. TREMBLAY: It may be a school board,
2 municipalities, the church.

3 COMMISSIONER BROWN: These are bank loans.

4 MR. MORIN: In this case they are bank loans,
5 yes.

6 MR. TREMBLAY: Local bodies and institutions.

7 MR. MORIN: They are probably responsible
8 for a big part of the loans over \$5,000.

9 COMMISSIONER BROWN: It is the number of
10 them that is rather surprising. It is 2,000 which
11 is an average of about two per caisse.

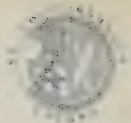
12 MR. TREMBLAY: That is not abnormal. In
13 a single caisse we may have 50 or 60 of those local
14 institutions. There will be different communities
15 of teachers, male and female, you have hospitals,
16 you may have nuns, brothers, parish priests, you may
17 have all kinds of things. Take in the city of
18 Quebec, for instance, where it is a converging centre,
19 there are all kinds of things -- playgrounds for
20 children, summer camps and things of that kind which
21 are run partly by the church and local bodies. We
22 finance all those things.

23 COMMISSIONER BROWN: These are unsecured
24 loans?

25 MR. TREMBLAY: Generally.

26 COMMISSIONER BROWN: Thank you.

27 COMMISSIONER MACKINTOSH: Senator Vaillancourt,
28 I would like to ask one or two questions about deposits.
29 I notice from the figures, at least some figures I have
30 here, that the turnover in your deposits is a bit higher



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for a big part of the loans over \$2,000.

COMMISSIONER BROWN: It is the number of

them that is rather surprising. It is \$2,000 which

is an average of about two per case.

MR. TREMBLAY: That is not abnormal. In

a single case we may have 50 or 60 of those local

institutions. There will be different communities

of teachers, male and female, you have hospitals,

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here, that the turnover in your deposits is a bit higher



1 than ordinary savings deposits in the chartered banks
2 but, of course, very much lower than current deposits
3 in the chartered banks, the rate at which they turn over.
4 Are these savings accounts in the caisse populaire
5 usually the only chequing accounts that a family main-
6 tains?

7 SENATOR VAILLANCOURT: Now you pay all by
8 cheque, gasoline and store, et cetera.

9 COMMISSIONER MACKINTOSH: You mean this is
10 becoming the custom?

11 SENATOR VAILLANCOURT: Yes.

12 MR. MORIN: On page 141 we have the number
13 of cheques drawn on the caisses populaires, the number
14 and the amount and there is \$1,269,000,000 of chequing
15 account that was passed by cheque. This is around
16 75 per cent of the withdrawals in the caisses populaires
17 this year.

18 COMMISSIONER MACKINTOSH: There was some
19 discussion a few moments ago about the year 1959. I
20 notice that your deposits rose less in that year than
21 in any other and I gather from the chart that in the
22 last quarter of the year they actually decreased.

23 SENATOR VAILLANCOURT: In 1956?

24 COMMISSIONER MACKINTOSH: In 1959.

25 SENATOR VAILLANCOURT: Oh yes.

26 COMMISSIONER MACKINTOSH: I wonder if you
27 would care to say a little more about the experience,
28 why the decrease in the deposits?

29 SENATOR VAILLANCOURT: Tight money. The
30 policy of the government asking to reduce some expenses,



than ordinary savings deposits in the chartered banks but, of course, very much lower than current deposits in the chartered banks, the rate at which they turn over. Are these savings accounts in the caisse populaire usually the only checking accounts that a family maintains?

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COMMISSIONER MACKINTOSH: You mean this is

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SENATOR VAILLANCOURT: Yes.

MR. MORIN: On page 141 we have the number

of cheques drawn on the caisse populaires, the number and the amount and there is \$1,250,000,000 of cheques

account that was passed by cheque. This is around

75 per cent of the withdrawals in the caisse populaires this year.

COMMISSIONER MACKINTOSH: There was some

discussion a few moments ago about the year 1952. I notice that your deposits rose less in that year than in any other and I gather from the chart that in the last quarter of the year they actually decreased.

SENATOR VAILLANCOURT: In 1950?

COMMISSIONER MACKINTOSH: In 1952.

SENATOR VAILLANCOURT: Oh yes

COMMISSIONER MACKINTOSH: I wonder if you

would care to say a little more about the experience,

why the decrease in the deposits?

SENATOR VAILLANCOURT: Tight money. The

policy of the Government seems to reduce bank deposits



1 et cetera.

2 COMMISSIONER MACKINTOSH: How does this
3 affect your members?

4 SENATOR VAILLANCOURT: I do not know but
5 our experience is when the federal government declares
6 such policy immediately we have a repercussion in our
7 local caisses populaires. If the Bank of Canada said:
8 "We will organize a tight money policy", we have the
9 same result as the government wants to have. They do
10 this and that for such a thing and you know now we
11 are dependent on that.

12 MR. MORIN: If we are not answering to a
13 change in interest rate our members are.

14 COMMISSIONER MACKINTOSH: In other words,
15 in a period of high interest rates they have more
16 attractive things to do with their money than deposit
17 it with you?

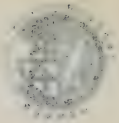
18 SENATOR VAILLANCOURT: Yes, that is true.

19 MR. TREMBLAY: As soon as the ordinary loaning
20 institutions ceased to make loans or even stopped loaning
21 well, what do you think we can do? There is less
22 money in circulation and deposits decrease instantly.
23 We have no control over that. Some other institution
24 has a perfect control of increasing the volume of money
25 in circulation.

26 COMMISSIONER MACKINTOSH: Did you attempt
27 to combat this by raising your own interest rates at all?

28 MR. TREMBLAY: No.

29 SENATOR VAILLANCOURT: No, we have not
30 increased our rate on savings.



of debate.

COMMISSIONER MACKINTOSH: How does this

affect your members?

SENATOR VAILLANCOURT: I do not know but

our experience is when the federal government declares

such policy immediately we have a repatriation in our

local savings populations. If the Bank of Canada said:

"We will organize a tight money policy," we have the

same result as the government wants to have. They do

this and that for such a thing and you know now we

are dependent on that.

MR. MORIN: If we are not answering to a

change in interest rate our members are.

COMMISSIONER MACKINTOSH: In other words,

in a period of high interest rates they have more

attractive things to do with their money than deposit

it with you?

SENATOR VAILLANCOURT: Yes, that is true.

MR. TREMBLAY: As against the ordinary loaning

institutions ceased to make loans or even stopped loaning

well, what do you think we can do? There is less

money in circulation and deposits decrease instantly.

We have no control over that. Some other institution

has a perfect control of increasing the volume of money

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to combat this by raising your own interest rates at all?

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increased our rate on savings.



1 MR. MORIN: We have 1,200 bodies. This is
2 not easy to answer directly in a tight money or loose
3 money policy. It is quite possible.

4 SENATOR VAILLANCOURT: If we increase the
5 interest on the savings we would be obliged to increase
6 the interest on loans and if the situation is poor
7 it is not a good time to increase the interest on a
8 loan because we want to protect our members and ourselves.
9 We receive a reasonable interest rate and give service
10 and that is the result. We do not operate exactly
11 as the financial organizations -- produce more and
12 more money and collect more and more money. We
13 try to educate our people to the situation, to organize
14 a good living it is necessary to build our organization
15 safely but regularly, not up and down and so on, and
16 we do not know where we are going. We try to do that
17 and I think we realize that is a safe way.

18 COMMISSIONER MACKINTOSH: It being true that
19 your organizations do not respond to changes in the
20 interest rate, this indicates that your members do,
21 that the alternative opportunities do affect the flow
22 of deposits and therefore the money that you have to
23 lend?

24 SENATOR VAILLANCOURT: Yes.

25 COMMISSIONER MACKINTOSH: Would any of your
26 caisses respond differently? I mean a large urban
27 caisse with possibly a more sophisticated management,
28 would they act differently from the ones which have
29 been described a while ago in a remote part of the country?
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1 MR. TREMBLAY: There might be a slight
2 difference but I would not say that it is intentional.
3 It might be based on some local needs. The unsophis-
4 ticated manager might do things that would be improper
5 at that moment, but much more from lack of knowledge
6 and lack of knowing the reasons for the trouble that
7 is going to come. In a big caisse populaire it is
8 different; the problem is they are more in the mortgage
9 field and if they had a request for a loan for a new
10 home, let us say \$10,000 and they have accepted the
11 loan already, and the member had his acceptance in
12 his pocket, it is a contract although the money has
13 not been taken out as yet. The money may be taken
14 out as he proceeds with the building of the house.
15 It may take three or four months, sometimes six months.
16 So the reaction would be different. But this will be
17 done in a very informal way according to localities.

18 COMMISSIONER MACKINTOSH: Well, that is
19 exactly what the trust companies and I think the
20 insurance companies told us about their business, that
21 they had these commitments ahead that they had to meet.

22 I was interested in your requirements in
23 regard to shares. There is an entrance fee payable
24 when the share is purchased, an entry fee.

25 SENATOR VAILLANCOURT: Yes.

26 COMMISSIONER MACKINTOSH: Does that act as
27 a restriction on the purchaser's shares?

28 SENATOR VAILLANCOURT: Yes.

29 COMMISSIONER MACKINTOSH: What is the reason
30



MR. TOWNSEND: There might be a slight

difference but I would not say that it is intentional. It might be based on some local needs. The newspaper located manager might do things that would be improper at that moment, but much more from lack of knowledge and lack of knowing the reasons for the trouble that is going to come. In a big case population it is different: the problem is they are more in the mortgage field and if they had a request for a loan for a new home, let us say \$10,000 and they have accepted the loan already, and the member had his acceptance in his pocket, so he is a contract although the money has not been taken out as yet. The money may be taken out as he proceeds with the building of the house.

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COMMISSIONER MACKINTOSH: What is the reason



1 for this?

2 SENATOR VAILLANCOURT: At the beginning when
3 the local caisses populaires started I suppose we
4 permitted ten people to take 1,000 or 2,000 shares and
5 the balance of the locality, that is, only labouring
6 people and farmers, et cetera, they took only one
7 share, two shares, et cetera. But after one year
8 the ten shareholders of 2,000 each said: "We want
9 such and such a board of directors, Mr. so and so.
10 If you do not agree with us we will pick up our money."
11 The situation would be terrible for the caisses
12 populaires. That is the reason why at the beginning
13 we permitted 100 or 200 shares, not more, and after
14 that we increase according to the size of the caisse
15 populaire to prevent control by anybody. That is the
16 reason.

17 COMMISSIONER MACKINTOSH: Well, the entry
18 fee which is not returnable is something in addition
19 to this.

20 SENATOR VAILLANCOURT: Yes. You know, the
21 shares are supposed to stay there and if and when
22 we charge a fee that is the people who lose.

23 COMMISSIONER MACKINTOSH: It acts as a
24 penalty against withdrawing?

25 SENATOR VAILLANCOURT: That is a kind of
26 stabilization fund.

27 MR. TREMBLAY: That is one of the outlets
28 to build up the reserve fund. Some people say: "Well,
29 you have big reserves, they are not taxed". Well,
30 it belongs partly to the members, it is money they paid



for this?

SENATOR VALLAHCOURT: At the beginning when

the local calasea population started I suppose we permitted ten people to take 1,000 or 2,000 shares and the balance of the locality, that is, only labouring people and farmers, et cetera, they took only one share, two shares, et cetera. But after one year the ten shareholders of 2,000 each said: "We want such and such a board of directors. Mr. so and so. If you do not agree with us we will pick up our money."

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1 to get in and it goes directly to the reserve fund.

2 There is another reason that entrance fees
3 go up. In some cases it may be 20 cents, 40 cents
4 and even 50 cents. We have seen instances where
5 the entrance fee for \$5 shares would be \$1 and actually
6 I do not know of any that would be over 50 cents
7 I do not believe. There are a few at 20 cents or
8 25 cents, not for the first share but for the first
9 50 or 100 shares the entry fee will be left at 10 cents
10 so the small people will come in, but the reason for
11 the increase of that entrance fee is to force the
12 new member that comes in to participate somewhat in
13 the same proportion as the older members who have
14 contributed to the building up of the big reserve.



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1 Being admitted as a member in a co-op society he
2 becomes a co-owner of the enterprise and is entitled
3 to a share of the profit deriving from that source.
4 There is a book reserve and the chances are they will
5 get a higher bonus and get a high rate of interest
6 on their deposits, so then we increase the entrance
7 fee as we go along and that acts as a brake, too.

8 COMMISSIONER MACKINTOSH: It is roughly
9 what the banks do in a more elaborate way when they
10 issue more shares; you have to pay your share of
11 the capital and also your share of the reserve?

12 MR. TREMBLAY: Yes.

13 COMMISSIONER MACKINTOSH: At the annual meeting
14 of the local caisses populaires, did you say it was
15 one share and one vote for each one man?

16 SENATOR VAILLANCOURT: No, one man one vote.

17 MR. MORIN: We would like to mention there
18 is no special plan to share in the chartered bank.

19 COMMISSIONER MACKINTOSH: You said a while
20 you don't go out and solicit loan business?

21 SENATOR VAILLANCOURT: No.

22 COMMISSIONER MACKINTOSH: But you do to a
23 considerable extent carry on education in favour of
24 deposits?

25 SENATOR VAILLANCOURT: Yes.

26 COMMISSIONER MACKINTOSH: You do active
27 solicitation?

28 SENATOR VAILLANCOURT: Especially on the
29 young peoples, the young men and young girls because
30 our experience, especially after the war, many people



being admitted as a member in a co-op society he becomes a co-owner of the enterprise and is entitled to a share of the profit deriving from that source. There is a bank reserve and the chances are they will get a higher bonus and get a high rate of interest on their deposits, so then we increase the entrance fee as we go along and that acts as a brake, too.

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1 want to get married and have no money and they come
2 to caisse populaires and say, "We want \$2,000 to buy
3 some furniture," and so on and so on, and that is a
4 very, very bad education.

5 The young peoples spend all their money
6 outside for many thing, foolish thing and so on, and
7 we educate the young peoples. You know, it is not
8 good business, maybe, but I think we will do something
9 for the nation.

10 Your know when the young peoples are out
11 to school at 8 or 10 years and he receive from his
12 father 25 cents or \$1.00, and so on, and if these
13 young people go to the store and spend for ice-cream they
14 have done some foolish thing with that, but if we can
15 educate -- I don't say 100 per cent, but only 5 per
16 cent of the young peoples to save their money it would
17 be a very good thing.

18 You know, the principle is this: These young
19 peoples or this young girl control herself by herself,
20 and tomorrow if we want something for the education,
21 to buy some good books for during a vacation, and so on,
22 I have the money to pay that, but the first thing
23 to be applied is to control himself and when we arrive
24 at 20 years after that and we are doing that for 10
25 or 12 years and we arrive -- I have to control myself
26 even if I can't control many things.

27 COMMISSIONER MACKINTOSH: You and I understand
28 this but I am not sure of my colleagues!

29 COMMISSIONER LEMAN: Perhaps we should all
30 empty our pockets!



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1 COMMISSIONER MACKINTOSH: It wasn't clear
2 from reading your brief as to just what your arrangements
3 are for clearings. Have you any clearing system,
4 clearing arrangements within your own system?

5 SENATOR VAILLANCOURT: Yes, we have a clearing
6 system. You know, our organization is divided up into
7 to 10 regional organizations but we have two central
8 organizations for clearing. One is in Montreal and
9 one in Quebec and we have passed an agreement with the
10 Banque Provinciale that all the cheques coming from
11 the caisse populaire go to -- collected from the
12 bank go to the Banque Provinciale.

13 COMMISSIONER MACKINTOSH: Do they go through
14 two centres first?

15 SENATOR VAILLANCOURT: No, they go first
16 to the Banque Provinciale and after that the Banque
17 Provinciale distributes between Montreal and Quebec
18 for clearing, and we do the same with the bank cheques
19 and the bank cheques received we send to the Banque
20 Provinciale and the Banque Provinciale distributes
21 it to the banks.

22 COMMISSIONER LEMAN: Your centrals don't play
23 any part in this system?

24 SENATOR VAILLANCOURT: For the clearing with
25 the banks we have two centres except, I suppose,
26 in Three Rivers or Sherbrooke, for the local banks
27 and the organization there is that it is directly with
28 the bank, and so on, but at large in the Province of
29 Quebec or any place in Canada we have two large
30 centres, Quebec and Montreal, and after that we distribute



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the entire population go to -- collected from the
bank go to the Banque Provinciale.

COMMISSIONER MACKINNON: Do they go through

the central bank?

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to the Banque Provinciale and after that the Banque
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1 to our regional organizations and the regionals
2 distribute to the locals.

3 COMMISSIONER BROWN: But about clearing between
4 one credit union local and another credit union local;
5 is that done through the central?

6 SENATOR VAILLANCOURT: No, they can't exchange
7 in the same place, in the same locality.

8 COMMISSIONER BROWN: Not necessarily.

9 SENATOR VAILLANCOURT: No, they send to
10 the regional organization.

11 MR. TREMBLAY: All outside items are deposited
12 in the central, what are drawn on another caisse,
13 an outside caisse or a bank and it is cleared through
14 the centrals.

15 COMMISSIONER BROWN: You have your own
16 internal clearing system for your own internal items?

17 MR. TREMBLAY: Yes, we have 10 offices.

18 COMMISSIONER LEMAN: Is this all free or is
19 there a system of charges between them?

20 MR. TREMBLAY: There is no charge except the
21 ordinary charges for exchange from an outside point.
22 It is an absolutely free service of the movement;
23 we charge what it costs us. If we pay exchange to
24 other institutions, well, that is charged to whoever
25 got the service.

26 COMMISSIONER MACKINTOSH: But within the
27 system; take a cheque, we will say, of a local in
28 Three Rivers which is deposited with another local
29 in Chicoutimi, do you charge an out of town fee on
30 it?



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1 MR. TREMBLAY: We have an agreement with the
2 bank; we charge the same thing as they charge, and
3 in practice we might find out if that wasn't respected --
4 hasn't been respected by us, but by somebody else
5 who didn't respect the rate that is set.

6 COMMISSIONER MACKINTOSH: Is this system
7 satisfactory; does it meet all your needs?

8 SENATOR VAILLANCOURT: It is worth its value.

9 MR. TREMBLAY: It is a good bit expensive.

10 COMMISSIONER MACKINTOSH: You say it is
11 expensive only in the sense that you would be pleased
12 if it were done for less or that you think it is
13 unreasonably high?

14 MR. TREMBLAY: In that field we have an
15 agreement and we are completely satisfied with it;
16 the only thing is we feel when we render the service
17 this is a reciprocating service, and the area institutions
18 render us this service, and the rates may be the same.

19 COMMISSIONER MACKINTOSH: What is this
20 reciprocal service that you render and what is the
21 difference in rates?

22 MR. TREMBLAY: Well, you have before you
23 that clearing in the brief from the C.C.S. and you
24 will see the difference there. When we process a
25 cheque drawn on a bank we have to pay 5 cents on
26 each item and a certain rate of commission, and on
27 the reverse when it is drawn on us and processed, we
28 have to pay another 5 cents and we don't have the
29 same rate in return, and that is quite a difference.
30 We pay both ways.



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1 SENATOR VAILLANCOURT: Yes.

2 MR. TREMBLAY: And if we don't perform that
3 clearing on the cheques drawn on the banks -- you
4 see, only for federal government cheques we had
5 3,216,000 cheques in 1959 and 1960 for \$118 million;
6 that would be for family allowances, old age pension
7 and other things, that have been cleared through our
8 caisse populaire in at least 400 places where there
9 are no banking facilities, so in certain cases we
10 have to pay out too much cash and do somebody else's
11 business.

12 COMMISSIONER MACKINTOSH: Are you required by
13 law to clear these federal government cheques at par?

14 SENATOR VAILLANCOURT: We are not required
15 by law but we do it because we know the people are
16 obliged to cash the old age pension cheques, and so
17 on, and have to go 40 or 60 miles or more than that
18 to get their money.

19 MR. TREMBLAY: The deposits of these
20 institutions, both provincial and federal, is the
21 same thing; we would have the same thing for provincial
22 cheques. Deposits are made in the banks and we have
23 to process the cheques and make nice packages, parcels
24 all wrapped up, and if we make an error in the parcel
25 we have to pay \$1 fine besides that.

26 COMMISSIONER MacKEEN: But you only provide
27 that service for your own members?

28 MR. TREMBLAY: We are not allowed to do
29 business with somebody else.

30 COMMISSIONER MacKEEN: I was wondering about

COMMISSIONER MACKEN: I was wondering about

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MR. TREMBLAY: And if we don't perform that

SENATOR VAILLANCOURT: Yes.



1 in a community where there was no bank?

2 MR. TREMBLAY: We would do it the same in
3 a place where there is a bank; if the individual belongs
4 to the caisse populaire we will do his business with
5 the caisse.

6 COMMISSIONER LEMAN: Suppose I am a tourist
7 and I have a travellers cheque, can I cash it in at
8 the caisse populaire?

9 SENATOR VAILLANCOURT: Yes.

10 MR. TREMBLAY: We have no money because they
11 want it exchanged, but in a big office you can do it.

12 SENATOR VAILLANCOURT: If the owner of the
13 travellers cheques is a member of our organization,
14 but not if he is out of the organization.

15 MR. TREMBLAY: We have had bad experiences
16 with this non-member business and even with your
17 presumably members of another caisse populaire.
18 Somebody comes along and is a crook and forges a
19 document and tries to give a nice story to the local
20 manager, and they come with all kinds of things,
21 travellers cheques and we had some from the Bank of
22 Montreal about a year ago that were on forged documents.

23 COMMISSIONER MACKINTOSH: This wasn't
24 contemplated in that sense.

25 MR. TREMBLAY: But we have learned a lesson
26 just the same not to do business with people we don't
27 know and we strictly adhere to do business with our
28 members; they are known, we know who they are.

29 COMMISSIONER LEMAN: Do you get involved
30 a bit with foreign currency?



in a community where there was no bank?

MR. TREMBLAY: We would do it the same in

a place where there is a bank; if the individual belongs

to the caisse populaire we will do his business with

the caisse.

COMMISSIONER LEAMAN: Suppose I am a tourist

and I have a travellers cheque, can I cash it in at

the caisse populaire?

SENATOR VAILLANCOURT: Yes.

MR. TREMBLAY: We have no money because they

want it exchanged, but in a big office you can do it.

SENATOR VAILLANCOURT: If the owner of the

travellers cheques is a member of our organization,

but not if he is out of the organization.

MR. TREMBLAY: We have had bad experiences

with this non-member business and even with your

presently members of another caisse populaire.

Somebody comes along and as a crook and forges a

document and tries to give a nice story to the local

manager, and they come with all kinds of things,

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COMMISSIONER LEAMAN: Do you get involved

a bit with foreign currency?



1 SENATOR VAILLANCOURT: We have to process
2 some, but a very small amount.

3 COMMISSIONER LEMAN: If a member, for instance,
4 wanted to buy U.S. funds for a trip or for some reason,
5 would you be able to handle it?

6 MR. TREMBLAY: It is in the convention
7 schedule we have with the banks; we can get the
8 foreign money through the bank according to certain
9 conditions that are stated in that convention, but
10 it is very negligible to the operation.

11 COMMISSIONER LEMAN: I was wondering if
12 in the large centres like Montreal ---

13 MR. TREMBLAY: There is some; there is incoming
14 American funds, quite a bit of it, and we accept it
15 on deposit and we get the proper discount or prime
16 rate in the deposit at the bank.

17 COMMISSIONER LEMAN: Well, I would like to
18 ask you a fairly simple question about the trend of
19 your earnings and expenses, and I am looking mostly
20 at the series of statements you have given us for
21 various years on pages 183, 184, 185 and 186.

22 It seems as though both as a percentage of
23 the assets in your system as well as a percentage of
24 the earnings of the system, both earnings on loans
25 and earnings on investments, the administrative costs
26 tend to go up by about 1 per cent both ways as a
27 percentage of assets to gross income. Why do you
28 believe this trend is going on; why does it get more
29 and more extensive in relation to the total volume
30 done? One might expect with volume that the percentage

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1 of administration would get lower, but it seems to
2 get a little higher.

3 MR. TREMBLAY: Well, the main reason for
4 that is when you move from a small society that is
5 kept in the kitchen of the manager or in a room of his
6 home and you get a little bit bigger -- well, they
7 need an office, they need a vault, they need a space,
8 they need an adding machine and typewriters and all
9 the equipment, and eventually they will need time
10 locks and other security gadgets, so that is one thing.

11 Then, as you increase, well, you need further
12 protection and insurance of all kinds. You need more
13 help. At the beginning of the society when it is
14 small, well, for the first year the managers don't
15 have a single cent of salary, they are hired for
16 \$1 a year just to say that they have something and they
17 cannot make a claim against the cash book later on,
18 and it may take years before they get any type of
19 worthwhile salary, but if they get to a certain point,
20 not only is it a fulltime job for the treasurer,
21 but they need hired help, and that would explain for
22 this switch. You have the new vaults, the burglar
23 proof valuts and different gadgets of this type with
24 the time lock devices and everything that is necessary.
25 Well, we run into money.

26 SENATOR VAILLANCOURT: Over the last five years
27 we have more than doubled and tripled expenses on that.

28 MR. TREMBLAY: And then armed guards; protective
29 protection.

30 COMMISSIONER LEMAN: Do some locals have that?



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1 MR. TREMBLAY: Over 100 locals have armed
2 guards full-time, and we have a fine staff, which
3 is quite important besides that, and it is quite useful;
4 it is strictly on this police work.

5 COMMISSIONER LEMAN: But this is in the
6 central, isn't it?

7 MR. TREMBLAY: No, no; the locals are
8 paying for it. We can't do a miracle; we have to
9 charge for the services we render.

10 COMMISSIONER LEMAN: Well, besides all these
11 frills that you need as time goes on, what has been
12 the trend of salaries for the paid personnel in the
13 caisse populaire; I suppose it depends on the size
14 of the cash books. What is the general level of
15 salaries to managers?



1 SENATOR VAILLANCOURT: The salary is not
2 fixed according to the assets of the caisse populaire.
3 We discuss it freely with the manager, that we have
4 such and such revenue and we can pay him so much
5 that is all. At the beginning we have not fixed it, in
6 the past, to 1 per cent of the total assets, but
7 now we can fix that.

8 MR. TREMBLAY: There has been an increase
9 in the cost of living and an increase in the salary
10 scales, and of course I am speaking of full-time
11 employees, and ours are not underpaid because we
12 very seldom see somebody working for caisse populaire
13 moving to some other institution.

14 COMMISSIONER LEMAN: You seldom see that?

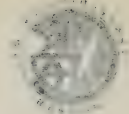
15 MR. TREMBLAY: Very seldom. We keep on
16 hiring quite a few outside people, and they seem to
17 be satisfied with what they get salary-wise.

18 COMMISSIONER LEMAN: In general you have been
19 able to retain your trained personnel in the system?

20 MR. TREMBLAY: Yes.

21 COMMISSIONER LEMAN: Are there educational
22 requirements for the manager? What would you say
23 would be the minimum qualification for a manager?

24 MR. TREMBLAY: It is quite hard to answer
25 for all the caisses populaires. Generally speaking
26 I would be inclined to think that the majority of
27 the new managers come from the ranks. They start
28 as an employee and grow up with the society, and
29 when there is a change, if he is assistant manager and
30 he is a good man, and he is known and belongs to the



SENATOR VALLAHCOURT: The salary is not

fixed according to the assets of the entire population.

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1 society, he will be promoted to the job of manager.

2 COMMISSIONER MACKINTOSH: This practically
3 makes it a bank.

4 MR. TREMBLAY: Yes.

5 COMMISSIONER LEMAN: The banks traditionally
6 train their personnel.

7 MR. TREMBLAY: Yes. We have to do that in
8 the larger offices. In some caisses we are up to
9 over 20 people in one office.

10 COMMISSIONER BROWN: Will there be much
11 movement between caisses?

12 MR. TREMBLAY: Very little. There will be
13 some if a local society is under-staffed for one
14 reason or another -- an accident or sickness. They
15 may get in touch with the regional unit or the
16 federation and ask for help, and there may be some
17 exchanges like that, but it is nothing like the transfers
18 there is in the banks, for instance, which are organized
19 in that way.

20 COMMISSIONER GIBSON: If a man does particularly
21 well in a small caisse, is a larger one likely to come
22 along and hire him as manager?

23 MR. TREMBLAY: It is possible, and often
24 we go and pick him up for our department -- supervision.
25 If we spot a good man, and he is willing to go further
26 in life and do more work and earn more money, we will
27 do that, if by hiring this man we do not disrupt
28 the smooth operation of the local society. If they
29 were without a replacement, we would not take him.
30 If he can be replaced without harm to the society we



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If he can be replaced without harm to the society we



1 will give him a chance.

2 COMMISSIONER LEMAN: It is a system of
3 promotion?

4 MR. TREMBLAY: Yes.

5 COMMISSIONER LEMAN: Senator Vaillancourt,
6 one thing that is, I would say, one of the most
7 striking characteristics of your brief, besides
8 being complete and representing a lot of work in informing
9 this Commission about what your system is, is the fact
10 that you do not ask us for anything. Everyone who
11 has been before us has asked us for something. They
12 were complaining about something in the financial
13 market, the way it works in Canada; sometimes they
14 were complaining about the fact that other institutions
15 were invading their field and making life tough for
16 them. You seem to think everything is going pretty
17 well in Canada and there is nothing much wrong with
18 it. Would you mind giving us a few opinions on matters
19 of general interest. First of all, you did mention
20 during the course of our discussion this morning
21 that there were a few things on which you thought
22 that provincial law could bring about some improvements.
23 You mentioned that there are certain additional powers
24 that the federation would like to have for good
25 control of the whole system.

26 SENATOR VAILLANCOURT: Yes.

27 COMMISSIONER LEMAN: Then you did mention
28 one thing that was a detail -- this right for
29 units to grant loans to credit offices as long as they
30 are secured by savings in the system. Are there any



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SENATOR VILLENEUVE: Yes

COMMISSIONER LEMAY: Then you did mention

one thing that was a detail -- this right for

units to grant loans to credit offices as long as they

are secured by savings in the system. Are there any



1 other things of importance that you would feel the
2 provincial law could well stand to be improved?

3 SENATOR VAILLANCOURT: You have many people
4 come here to ask for so many things, I think for us
5 it is not necessary to ask. If the new law in the
6 Province of Quebec is approved, I think we will
7 be satisfied with that, because, you know, we are not
8 in the market for increasing the loans, and so on and
9 so on. It is a funny thing, probably, but that is our
10 idea. The first thing in our organization is education
11 and services, and the principle is not to increase
12 our revenue and so on and increase the loans for
13 anything. If you have heard in the television for the
14 last four years our programme is an education programme.
15 There are the programmes Joindre les deux Bouts and
16 Droit de Cite, and our programme is an educative
17 programme.

18 The situation is now forming for many people
19 who think only of money, money, money, and trying to
20 increase the loans and interests, and so on. I think
21 this is not a good thing for the world. It will be
22 necessary to come back and live according to our
23 revenue and work for that; don't receive anything
24 for nothing. You can't buy a press and print money
25 for nothing. It is absolutely ridiculous and we
26 should organize more education every place in our
27 country and in the world. When I see on the television,
28 TCA which is a government organization advertising,
29 "Go to Europe for \$42 and pay next year", it is
30 ridiculous to us. I asked a friend of mine last year,



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2 He said, "I will be staying in my own kitchen." I
3 said, "For what reason?" He replied, "I am obliged
4 to pay for last year's vacation this year." It
5 would be better to save this year and go next year. There
6 are some people who think this argument is ridiculous,
7 but I think it is ridiculous to go where we are going
8 now -- spend, spend, spend. And after that, what?

9 I would mention one other thing, because so many
10 many people appearing before you have said the caisse
11 populaire don't pay any income tax. The answer is
12 very simple: All our board of directors, commissioners
13 of credit, and supervisors, work for no money -- not
14 for nothing; but they work for their neighbours and
15 their friends and for the members of the society, and
16 they are ready to do that, and if the government taxed
17 the caisse populaire they would be taxing these people.
18 If the government changed it, the board of directors
19 and the other members of the other boards would be
20 asked to receive a salary, and after that the government
21 wouldn't receive very much more, because all our
22 savers in our organization receiving \$100 or more on
23 shares and savings are shown on a report which we
24 file with the federal government, and every individual
25 pays his taxes on that.

26 We have no other arguments, and I don't like
27 to say too much.

28 This is another thing when we discussed
29 the shares a few minutes ago. In the caisse populaire
30 at Levis, the oldest caisse populaire, we have a



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Nethercut & Young

Toronto, Ontario

- 3713 -

1 reserve of \$600,000, and if a group of new members
2 arrives and says, "We will stop the caisse populaire;
3 close the door, and we will distribute the reserve funds",
4 it is prohibited by law -- not by our rules, but
5 by the law. If a caisse populaire closes with a
6 reserve fund, this reserve fund is obliged to be
7 distributed to a special charity designated by the
8 Governor-in-Council.



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1 That is another thing to be borne in mind when people
2 say we have a big reserve; the big reserve is only to
3 protect our own members, and not for themselves.

4 Another thing, we have some big organizations with
5 big secret reserves who are not paying any tax on that,
6 and if the government agrees to change that, I will
7 be obliged to agree on everything, but I think it
8 would be preferable if you want to educate our people
9 to working for something and working in the future
10 for their neighbours freely; not for nothing, but
11 freely, to help people. I think it would be better
12 to stay as we are.

13 COMMISSIONER LEMAN: You also mentioned
14 a few things in the federal field. You said you had
15 applied for participation in various federal programs
16 on which you had been refused participation, but you
17 did not choose to make any recommendations to this
18 Commission on these matters.

19 SENATOR VAILLANCOURT: If the government
20 agrees with us on the mortgages, like the Central
21 Mortgage and Housing have farm loans, and if they
22 permit us the same conditions as the banks, it would
23 be a good thing to help the farmer.

24 COMMISSIONER LEMAN: You did not choose
25 to make any recommendations on matters of general
26 interest either about the way the Bank of Canada works?

27 SENATOR VAILLANCOURT: No. After our
28 explanation, I think you are very clever men and you
29 can recommend what is necessary.

30 COMMISSIONER BROWN: You are quite a large and



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COMMISSIONER BROWN: You are quite a large and



1 important sector of the banking system in Quebec, whether
2 you call yourselves a savings bank or not; in effect,
3 you operate the same as the other savings banks. Have
4 you any comments about the banking system, about the
5 6 per cent interest rate?

6 SENATOR VAILLANCOURT: Oh, that is another
7 thing. If we recommend to increase the interest,
8 I think it will not be very good for the prevention
9 of inflation. You know in all the organizations --
10 savings and trusts and so on -- the loans sometimes
11 are very, very high. I think it would be better to
12 control the other organizations than the banks to
13 increase the interest. Many, many millions of people
14 are going into financial organizations and borrowing
15 money at 24, 48 and sometimes more than 100 per cent
16 interest. I think it would be a good thing if it is
17 possible to control that, and we agree on that. But
18 if we permit the financial organizations, banks and
19 others, to increase the interest rate to 7 per cent or
20 8 per cent, I think it would not be good for the control
21 of inflation. It would be quite the contrary.

22 COMMISSIONER BROWN: There is no control
23 on the rates you can charge.

24 SENATOR VAILLANCOURT: Control on interest
25 charges, yes.

26 COMMISSIONER BROWN: What is the control
27 on the rates you can charge?

28 SENATOR VAILLANCOURT: No, we have no real
29 control, but with the spirit of our organization we
30 advise our people not to go too far. We have one caisse



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1 with 8 per cent, but I think the average is 6 per cent.

2 In 99 per cent of the caisses it is 6 per cent.

3 COMMISSIONER BROWN: You have 36 that charge
4 8 per cent and more?

5 SENATOR VAILLANCOURT: Yes, but on mortgages,
6 8 per cent ----

7 COMMISSIONER BROWN: I am talking about
8 other loans.

9 SENATOR VAILLANCOURT: On the notes -- not
10 on mortgage, no; mortgage, not more than 6 per cent.

11 COMMISSIONER BROWN: Do you think banks
12 should be controlled to 6 per cent?

13 SENATOR VAILLANCOURT: Yes.

14 COMMISSIONER BROWN: But not the caisse
15 populaire?

16 SENATOR VAILLANCOURT: Not the caisse
17 populaire. We control ourselves.

18 MR. CHARRON: The Co-operative Credit
19 Society belongs to the members, and the members would
20 not be interested in paying a high interest rate.
21 The control is automatic.

22 COMMISSIONER BROWN: I agree with that, but
23 I am asking about the philosophy which says that banks
24 should be held to 6 per cent, but you have 36 caisses
25 that charge 8 per cent and more.

26 SENATOR VAILLANCOURT: Not more.

27 COMMISSIONER BROWN: You have 35 that charge
28 8 per cent and one that charges 9 per cent; so, you
29 have 36 that charge 8 per cent or more. Why should
30 the others be held down?



...but I think the average is 6 per cent.
...of the cases it is 6 per cent.

8 per cent and more?

SENATOR VAILLANCOURT: Yes, but on mortgages

8 per cent ---

COMMISSIONER BROWN: I am talking about

SENATOR VAILLANCOURT: On the notes -- not

on mortgage, not mortgage, not more than 6 per cent.

COMMISSIONER BROWN: Do you think banks

should be controlled to 6 per cent?

SENATOR VAILLANCOURT: Yes.

COMMISSIONER BROWN: But not the cases

populines?

SENATOR VAILLANCOURT: Not the cases

MR. CHANNON: The Co-operative Credit

Society belongs to the members, and the members would

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should be held to 6 per cent, but you have 36 cases

that charge 8 per cent and more.

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COMMISSIONER BROWN: You have 35 that charge

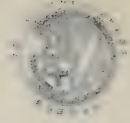
8 per cent and one that charges 9 per cent; so, you

have 36 that charge 8 per cent or more. Why should



1 MR. TREMBLAY: First of all there is a
2 difference in the calculation. We have put in the
3 brief how we calculate the interest. It is not a
4 discount interest. It is a straight interest. If
5 I borrow \$100 and I have to pay a \$6 interest to start
6 with, I only get \$94 and I begin to make my repayments ---

7 COMMISSIONER BROWN: But there are other
8 institutions which only charge simple interest. Let
9 us not confuse the issue.



...the calculation. We have put in the
brief how we calculate the interest. It is not a
discount interest. It is a straight interest. If
I borrow \$100 and I have to pay a \$5 interest to start
with, I only get \$95 and I begin to make my repayments
institutions which only charge simple interest. Let
us not confuse the issue.

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1 MR. TREMBLAY: Yes, and we do not have the
2 multiplication factor to work on. We are simply a
3 financial institution, not a monetary institution.
4 That is a big factor. This might have been one of
5 the reasons why these people put the ceiling in the
6 Bank Act at that level. I do not know, but I feel
7 they must have had pretty good reason for it. I
8 would be very interested to know why they did that
9 if it is not because of the multiplication factor
10 which gives to certain institutions an advantage which
11 none of the others have.

12 COMMISSIONER BROWN: I think there is a
13 confusion here resulting from referring to this as
14 a multiplication factor. When you look at it the
15 other way, you keep your people at 10 per cent cash
16 and the chartered banks are kept at 8 per cent cash.
17 Do not look at it as a multiplication factor, look
18 at it as a cash reserve. I think you are looking
19 at it in the wrong way.

20 MR. BOYER: In respect of all these rates
21 you must include the loan insurance. All those rates
22 to which you made reference have loan insurance charges
23 included in them.

24 COMMISSIONER BROWN: I just wanted to find
25 out your feeling as to whether you thought the 6 per
26 cent ceiling should be less for the banks.

27 SENATOR VAILLANCOURT: I would be ready to
28 accept the same thing for the caisses populaires, and
29 I refer to the 6 per cent. We have no objection to that.

30 THE CHAIRMAN: We are very much obliged to you,



MR. TRIMBLE: Yes, and we do not have the

multiplication factor to work on. We are simply a

financial institution, not a monetary institution.

This might have been one of

the reasons why these people put the ceiling in the

Bank Act at that level. It is not good, but I feel

that they have been very much interested in it.

would be very interested to know why they did that

if it is not because of the multiplication factor

which gives to certain institutions an advantage which

none of the others have.

I think there is a

confusion here resulting from referring to this as

a multiplication factor. When you look at it the

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and the chartered banks are kept at 8 per cent

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THE CHAIRMAN: We are very much obliged to you



1 Senator Vaillancourt and gentlemen. The discussion has
2 been very useful and interesting. I think we have
3 all learned a great deal as a result of this session
4 with your organization, and we wish to thank you very
5 much for your presence here today and for the assistance
6 which you have given us. We have asked many questions,
7 some of which have been provocative. We will give
8 the fullest consideration possible to your views. I
9 might say that we are all very much impressed with the
10 great work that your institutions has been doing. Thank
11 you very much.

12 SENATOR VAILLANCOURT: Thank you very much
13 Mr. President and Commissioners. I hope you will do
14 the best for our country, as I am sure you will.

15 THE CHAIRMAN: We shall now adjourn until
16 tomorrow at 9.15 A.M.

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18 --- Adjournment.
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Royal Commission on Banking and Finance

La Federation de Quebec des Unions Regionales
des
Caisses Populaires Desjardins

Hearings
held at
Ottawa

Vol.

26A

Date.

JULY 18 1962



Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.



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SECTION I

HISTORY AND PHILOSOPHY OF THE

CAISSES POPULAIRES DESJARDINS MOVEMENT



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1. THE EMERGENCE OF THE "CAISSES POPULAIRES DESJARDINS"

In the not too distant past, the Canadian population was largely rural in character. Living on agriculture and handicrafts, families were self-sufficient. They produced the food and clothing and other commodities which they needed. Trade was rather restricted, as there was virtually no market. In our rural parishes, almost every craft flourished, providing families with all their needs. It was a domestic economy.

But times have changed. Great inventions (such as the steam engine, which revolutionized industry) introduced a new economic era by making it possible to organize transportation, manufacturing and marketing on a massive scale. One of the effects of the economic revolution was to concentrate the people around large production centres; large modern cities (with all their social problems) began to mushroom.

Old economic formulae broke down under the impact of the industrial and commercial boom, giving way to a new economy which has been described as capitalist. The nascent large-scale industry had a great need for capital. This need brought about the famous development of the capital stock corporation, whose great appeal was its capacity to attract savings through the distribution of profits on capital. The capitalist system, based on purchasing and selling at a profit, quickly expanded with the tremendous production boom, bringing about



1 a proliferation of intermediaries dependent on
2 production, and stimulating economic and financial
3 concentration through the distribution of profits
4 on capital.

5 Farmers and craftsmen were forced to adjust
6 to the new economic conditions and began producing
7 for the market. Agriculture became an industry,
8 then a business. Agricultural families increasingly
9 looked to the market to supply their needs, selling
10 farm products at wholesale prices and purchasing
11 needed commodities at retail prices. The marketing
12 and selling of agricultural products and the
13 distribution of goods have become costly. Farmers
14 by no means always get a fair price for their
15 products. They do not receive a fair share of the
16 national income. For too many agricultural products,
17 there is in some cases a considerable spread
18 between the price paid to the farmer and the price
19 paid by the consumer. In 1935, the report of the
20 Stevens Royal Commission on prices in Canada cast
21 some light on unfair business practices and the high
22 cost of distribution and recommended, among other
23 remedial measures, the promotion of distributors'
24 co-operatives.

25 To protect themselves from the inroads of
26 a capitalist economy, families and farms had only one
27 effective means at their disposal: to unite on the
28 professional and economic level, i.e. to integrate
29 into the economic life through the development of
30 co-operatives which would enable them to become



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1 their own bankers and dealers, eliminate costly
2 middlemen, secure a better price for their products,
3 purchase goods of professional or other use at a
4 cheaper price, and enjoy a fairer share of the
5 national income.

6 Mr. Leland Olds, one of the six members
7 of the committee appointed by President F. D. Roosevelt
8 in 1937 to investigate the co-operative movement
9 in Europe, noted in the committee's report on
10 modern co-operation and its economic impact:

11 " The co-operative system is not quite new,
12 though its application to modern production
13 and marketing techniques belongs to our time:
14 the self-sufficient rural family, before the
15 industrial revolution, was essentially a co-
16 operative organization; the elements of the
17 local and regional co-operative association
18 existed in the Middle Ages. But the industrial
19 revolution gradually eroded that co-operation.
20 The number of needed services has risen, the
21 volume of goods consumed has expanded, and
22 what was formerly produced within the family
23 began to be bought on the market place.

24 The co-operative movement would therefore
25 extend the co-operative system which formerly
26 characterized the family to a control of the
27 market, through the co-operative grouping of
28 families. Formerly, the needs of the family
29 determined production and kept it in balance.
30 In the same way, the needs of the members of



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1 " modern co-operative societies exercise a control
2 and stabilized production."

3 With the substitution of a capitalist
4 economy for a domestic type of economy, and with
5 mass industrial production which has fathered the
6 division of labour and which requires the co-operation
7 of labour and capital, the importance of money and
8 credit and the need for a soundly organized credit
9 system have been brought to light. Manufacturers
10 and business men, conscious of the essential need for
11 well organized credit, were quick to set up
12 commercial banks, for the purpose of helping them
13 to meet their credit needs and to develop.

14 In Germany, the craftsmen, faced with a
15 disastrous competition from the new large-scale
16 industry and with the need for credit with which to
17 pay cash for materials they had to purchase
18 collectively (through their purchasers' co-operative)
19 and bent on reducing costs to face competition, in
20 turn proceeded to organize popular banks under the
21 direction of Herman Schulze Delitzsch, a leading
22 economist and humanist.

23 Meanwhile, what action were the farmers
24 taking? They too were certainly experiencing increased
25 credit needs due to industrialization and the
26 commercialization of agriculture. They put their
27 savings into banks which poured them into large
28 centres and used them for industrial and commercial
29 purposes. However, such capitalist type financial
30 institutions were not interested in loaning money to



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1 agriculture, since the latter was unable, in view
2 of its inadequate income, to pay interest rates
3 comparable to the interest available from industry
4 and business.

5 This unsatisfied need for agricultural
6 credit gave rise, in the middle of the last century,
7 to the rural co-operative credit organization,
8 with Raiffeisen in Germany. - Farmers got together
9 on a community basis to borrow funds and later to
10 loan money to one another. They collectively
11 sought funds from lending institutions by assuming
12 joint responsibility for loans granted on their
13 behalf to the co-operative credit society.

14 Mr. Alphonse Desjardins who for a number
15 of years had been aware of the damage caused among
16 the people by usury, in view of the lack of
17 organization of savings and credit for the working
18 classes, in 1900 set up his caisse populaire in
19 Levis, his native city.

20 He established it on a co-operative basis,
21 for the purpose of organizing people's savings in
22 terms of popular credit, and thus satisfying the
23 credit needs of our working classes.

24 2. THE SCOURGE OF USURY

25 Mr. Desjardins, in 1892, was appointed
26 official reporter to the House of Commons in Ottawa,
27 and, as such, took down in shorthand the parliamentary
28 debates which took place in those years on the
29 excessive rates of interest imposed on the common
30 people, and on the legislative measures intended to



of the Institute for the Study of the History of the
Community in the late 19th century from industry
and business.

This institution was founded in 1871.

Initially, the Institute was a small organization, but it grew rapidly
so that it could carry out its research and
also publish its results. It was not long
on a community basis to become a leading center for
its study of the community. They were interested

to be responsible for the growth of the

study of the community in the 19th century.

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check usury.

Devoting his spare time to the study of economic and social matters, he made a thorough study of the problem of usury. He realized that the law provided no efficient remedy against usury; members of Parliament periodically raised the question of excessive rates of interest in the House of Commons and deplored the inadequacy of the law to protect the small man from the voracious appetite of money-lenders. The revelation of certain usurious practices in the large cities of eastern Canada, such as Montreal, seemed to indicate, moreover, that the evil was spreading.

Mr. Desjardins made a thorough investigation of the situation and thus discovered the extent of the damage usury was causing in our country. In his pamphlet on the caisses populaires, Mr. Desjardins wrote:

" Certain sensational lawsuits which have taken place in Montreal have brought to light deplorable cases of hard-pressed borrowers who have had to pay merciless money-lenders several hundred per cent in interest on insignificant loans and that is what led us to study the problem and seek methods to solve it."

In a letter dated June 6, 1898, addressed to Henry Wolff, president of the International Co-operative Alliance, Mr. Desjardins confirmed his investigation of money-lending and his desire to find a remedy:



CONFIDENTIAL
JANUARY 1952

During his spare time in the study of

economic and social matters, he made a thorough

study of the problem of money. He realized that the

law provided no efficient remedy against money;

members of Parliament periodically raised the

question of excessive rates of interest in the

House of Commons and deplored the ineptness of the

law to protect the small man from the voracious

acquisition of money-lenders. The realization of cer-

tain serious practices in the large cities of

England, however, that the evil was spreading.

Mr. Bejaudon made a thorough investigation

of the situation and thus discovered the extent of

the damage money was causing in our country. In

his pamphlet on the subject, Mr. Bejaudon

states:

"Certain sensational headlines which have

taken place in Montreal have brought to light

deplorable cases of hard-pressed workmen

who have had to pay exorbitant money-lenders

several hundred per cent in interest or in-

significant loans and that is what led us to

study the problem and seek methods to solve it."

In a letter dated June 6, 1952 addressed

to Henry Wolff, president of the International Co-

operative Alliance, Mr. Bejaudon continued his

investigation of money-lenders and his desire to



" A case which came before the law courts recently,"he wrote,"revealed the existence of usurious practices. The case in point was that of an individual who had to pay 120 per cent interest on a small loan he had obtained from a money-lender. That case is by no means the only one. Indeed, as I wanted to find a remedy against the evil of usury, I have been collecting facts of this kind for some time past and now have an entire file".

Mr. Desjardins realized that it was the lack of organized credit for the working classes that made usury possible and even facilitated it. Credit was organized for trade and industry, the credit system set up by the capitalist regime being, almost exclusively, the monopoly of industrialists and business people who, indeed, were practically the only ones who could take advantage of it. Credit was not organized to meet the capital requirements of farmers, craftsmen or workmen.

"Up to now,"stated Mr. Desjardins in his pamphlet on the caisses populaires, "the worker, to obtain the credit he required, has been forced to turn to the small-loan operators, the pawnbrokers or the clandestine money-lenders who never fail to claim their pound of flesh from the distraught victims who fall into their clutches."

The banks were not organized to meet the credit needs of the working classes.



1 "Neither the banks nor the loan companies,"
2 wrote Mr. Desjardins in his brief to the Parliamentary
3 committee studying the bill on co-operative and
4 industrial companies,

5 "...are prepared to meet the credit requirements
6 of the poor because the latter have nothing
7 to pledge but their honesty and intention
8 to repay a loan. This deficiency in our
9 economy has been of considerable advantage to
10 a class of pawnbrokers or small loan operators,
11 known today as usurers, who have speculated
12 on the needs of the common people on the
13 pretext of being of service to them."

14 At the meeting of the special parliamentary
15 committee studying the bill on industrial and co-
16 operative societies, held on February 22, 1907,
17 Mr. Monk, member of parliament for Jacques-Cartier,
18 (Montreal) made the following statements: "It
19 is true that our larger banks have branch offices in
20 rural areas and in the suburbs of large cities
21 but these offices are established mainly for the
22 purpose of getting deposits. It is impossible for
23 a worker, or any one else in a rural area, to obtain
24 a loan from these banks to buy, for example, the
25 equipment they need for their work".

26 The normal economic life of our country
27 therefore lacked certain necessary machinery, the
28 small man being the victim of usury because of the
29 absence of a credit system adapted to the needs of
30 our working classes. Mr. Desjardins felt that as



"...and the loan companies,"

...and in his view to the Parliament

committee studying the bill on co-operative and

"...are prepared to meet the credit requirements

of the poor because the latter have nothing

to pledge but their honesty and intention

to repay a loan. This intention is not

generally the basis of considerable advantage to

a class of borrowers or small loan companies,

which today are numerous, who have speculated

on the needs of the poorer people of the

problem of being of service to them."

At the meeting of the special committee

committee studying the bill on industrial and co-

operative societies, held on February 22, 1937,

(Mondran) made the following statement: "It

is true that our larger banks have branch offices in

rural areas and in the suburbs of large cities

but these offices are established only for the

purpose of getting deposits. It is impossible for

a worker, or any one else in a rural area, to obtain

a loan from these banks for his own needs, for

The Council of Ministers, in its decision

therefore, took certain measures accordingly, the

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long as this deficiency in economic organization existed, the evil of usury would persist, for no law had thus far been effective in preventing small capitalist lenders from taking advantage of the working classes. Mr. Desjardins realized that it was impossible for the government to control loans between citizens, that the money-lenders could evade the federal Small Loans Act and that the amendments to that act were ineffective.

3. THE NEED TO ORGANIZE CREDIT FOR THE PEOPLE

It appeared to Mr. Desjardins that the truly effective means of controlling usury was to give the common people a sound credit system which would get them out of the clutches of usurers and supply them the capital the needed to promote their small enterprises and to prosper.

He then set out to find whether usury existed or had existed in other countries, particularly in Europe, and what remedies were being or had been used to check it. In the Ottawa Library, Mr. Desjardins found, among other treatises on economic questions, a book by Henry Wolff, the British economist and cooperator, on people's banks and co-operative credit unions, under the title "People's Banks". He thus learned how usury had plagued certain countries in Europe and Asia, and how co-operative credit unions had been organized to deal with the problem. Usury is a sign of serious deficiencies in the economic organization of the working classes; the plague of usury in Canada, as he



...this deficiency in economic organization
...the evil of luxury would persist, for
no law had thus far been effective in preventing
small capitalist holders from taking advantage of
the existing system. ...
it was impossible for the government to control
...between citizens, that the money-lenders could
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THE PROBLEM OF THE SMALL CAPITALIST

It appeared to the speaker that the money
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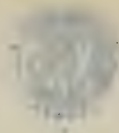


1 saw it, resulted from the failure of the existing
2 economic system to help the working classes develop
3 a sound credit system. In fact, far from helping
4 the small people to set up credit institutions,
5 the banks drained their small savings into the large
6 centres and the working classes were deprived of
7 much needed credit. The banks were not interested in
8 granting them credit. The small money-lenders were
9 practically the only source of credit for people of
10 modest means, and they took advantage of the difficult
11 circumstances of the people, charging them
12 exorbitant rates of interest on loans.

13 (a) How to effectively organize popular credit

14 Mr. Desjardins thus realized that the
15 true solution to the problem of usury was to help
16 the people organize their own credit needs and thus
17 protect themselves against the greed of the money-
18 lenders; the existing economic system was not
19 interested in organizing a sound and effective credit
20 system for the benefit of the working classes,
21 because its own interests were better served when
22 the small savings were being drained towards the
23 large centres where they helped supply the needs of
24 industrial and commercial credit.

25 Savings and loan institutions, organized by and
26 for the people, were in fact savings and credit co-
27 operative institutions. Through such institutions,
28 the working classes could solve their own credit
29 problems, and would no longer have to rely on outside
30 help. "The road to follow for people desirous of



the first thing that came to the mind of the people

was to get the money for the first thing

A good thing to do is to get the money for the first thing

The first thing to do is to get the money for the first thing

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centres and the working class were required to

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essentially the only source of credit for people of

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(a) Now the first thing to do is to get the money for the first thing

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the people organize their own credit needs and thus

protect themselves against the abuse of the money

lenders. The first thing to do is to get the money for the first thing

interested in organizing a credit and economic credit

system for the benefit of the working classes.

because the first thing to do is to get the money for the first thing

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large extent when they helped apply the results of

technical and commercial credit.

Government and the working class, organized by the

the people, were in fact saving and credit co-

operative institutions. The first thing to do is to get the money for the first thing

the working class could save their own credit

system, and the first thing to do is to get the money for the first thing

the first thing to do is to get the money for the first thing



1 managing their own affairs without the burden of
2 outside interference", Mr. Desjardins wrote in his
3 brochure, "is to unite and accept both the advantages
4 and the responsibilities resulting from full control
5 and full participation in the economic life, an
6 essential corollary to the civil and political
7 freedom which we enjoy".

8 Mr. Desjardins was drawn to the idea of
9 the caisse populaire by his study of the co-
10 operative movement. "Co-operation can, within
11 reasonable limits", he wrote, "be used for all kinds
12 of activities, and to the greatest advantage.
13 After all -- and that is the very essential point
14 of co-operation -- it is the people who manage their
15 own economic affairs. Rather than being ruled today,
16 as people were two or three centuries ago, by an
17 autocratic king who considered himself commissioned
18 by God, we enjoy self-government and settle all
19 matters political through our freely elected
20 members. Why should we not have an equally free
21 system in the economic field? Our political system
22 is essentially democratic, but when you come to
23 our financial or economic system, you find it is
24 ruled in a purely aristocratic or plutocratic way".

25 Mr. Desjardins quite rightly believed that
26 the caisses populaires were the first step to economic
27 reform in favour of the working classes. In addition
28 to producing citizens with a deep sense of solidarity
29 and service, the caisses populaires would promote
30 a sense of thrift and economy and would organize



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1 popular credit on a decentralized basis. Educating
2 citizens with a deep sense of solidarity and service,
3 harvesting savings, assuming control of its own capital,
4 such was the first step towards a sound organization
5 of our people's economy. The caisse populaire would
6 provide the means to carry out this first necessary
7 task. Mr. Desjardins himself, in his brief on the
8 organization of agriculture in the province of Quebec,
9 expressed his convictions in the following terms:

10 "We say without hesitation that we hope to see
11 the caisse populaire, that is to say the pooling
12 of modest local capital, become the focus of
13 activity, the driving force of this movement.
14 It has been stated time and again and confirmed
15 by experience that money is the sinew of war.
16 Without the help of money, how utterly weak is
17 any economic endeavour. Now we are faced with
18 a situation which requires us to wage a war on
19 several fronts. One of the most effective weapons
20 at our disposal is to secure the powerful help of
21 credit through the organization of a caisse popu-
22 laire, which will act as a reservoir of local
23 savings, from which money will flow in the form
24 of loans or advances to give added strength to
25 individual or group initiatives inspired by
26 this renovating movement."

27 Placing the savings of the people at the
28 disposal of the people: such was the problem on
29 the mind of Mr. Desjardins. He saw it as the
30 essential means to provide the necessary basis for



task. Mr. Desjardins himself, in his brief on the
organization of agriculture in the province of Quebec,
expressed his conviction in the following terms:
"We may without hesitation claim we have no use
the entire population, and he is to say the pooling
of interest local agents, because the focus of
activity, the driving force of this movement.
It has been stated time and again and confirmed
by experience that money is the sinew of war.
Without the help of money, one obviously runs the
any economic endeavour. Now we are faced with
a situation which requires us to wage a war on
several fronts. One of the most effective weapons
at our disposal is to secure the powerful help of
people through the organization of a certain form
of action which will act as a lever of local
energy, from which money will flow in the form
of loans or advances to give effect to projects of
local interest or group activities proposed by
this movement and movement."
The main object of the movement is to
bring out the people on
the mind of Mr. Desjardins. He says in an
essential means to provide the necessary basis for



Nethercut & Young

Toronto, Ontario

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1 a sound organization of our economy. The effective
2 organization of popular credit (which would
3 automatically solve the problem of usury) would be the
4 driving force of the economic life of the labouring
5 classes.

6 But how could popular savings be so
7 efficiently organized as to meet the credit needs of
8 the people? How could an effective and essential
9 link be established between popular savings and
10 popular credit? How should we introduce in Canada
11 an institution which, by gaining the confidence of
12 the people, could attract and bring together the
13 savings of the people and distribute them wisely
14 among the working classes to properly meet their
15 credit needs? And how could the working classes be
16 helped to set up an institution capable of meeting
17 their credit needs effectively? Finally, how
18 would such a popular credit institution be con-
19 stituted, supplied and administered?

20 In reading the House of Commons debates on
21 usury, Mr. Desjardins had noted that in 1885, a
22 member of the House had suggested the creation of
23 agricultural banks operating under the control of
24 the farmers. His study of credit co-operatives in
25 Europe had convinced him, on the other hand, that
26 a popular credit institution, in order to provide
27 the working classes with low cost credit and enable
28 them to free themselves from the usurers, should
29 be the property of the very people who had credit
30 needs to satisfy and should, therefore, be organized

[illegible]



1 according to the co-operative formula, where the
2 owners, users and beneficiaries are the same people,
3 with equal rights in matters of administration
4 and policy. This popular credit institution where
5 the owners, users and beneficiaries are the same
6 people is none other than the co-operative credit
7 society.

8 But how can the co-operative credit society
9 adjust itself to our particular thinking, legal
10 framework and environment? Is it possible to
11 introduce such a co-operative organization in
12 Canada? Can it be operated efficiently? Will it
13 attract enough savings to satisfy the credit needs
14 of the common people? It should be noted that
15 European co-operative credit societies were
16 unlimited as to liability. Peasants in need of
17 credit would set up a local co-operative; and the
18 co-operative would then commit everything they owned
19 to secure loans from banks or capitalists. Using
20 solidarity to meet their credit needs, they would
21 severally and jointly pledge everything they
22 owned to provide the needed security for loans which
23 they were granted collectively through their co-
24 operative credit society: it was only by pooling all
25 their assets to provide security that they were able
26 to obtain capital, which they would then distribute
27 among themselves according to their respective credit
28 needs. European co-operative credit societies were
29 borrowers' co-operative with unlimited liability,
30 and later served as personal credit distribution co-
operatives.



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Mr. Desjardins did not believe in the possibility of operating an unlimited liability co-operative credit society in Canada, because he could not see how it could effectively adjust to our economic conditions and legal system, where economic or financial institutions were already taking the modern legal form of limited liability companies; he felt certain, as he himself recognized in a letter dated October 18, 1900 to Charles Rayneri, chairman of the banque populaire de Monton, in France, the director of the Centre federatif du credit populaire de France, to whom he submitted the draft constitution of his caisse populaire, that it would be impossible to get our people to endorse the principle of unlimited liability which was the basis of the European co-operative credit society.

"My reason for rejecting unlimited liability, he wrote, is that I feel sure it is impossible to have such a principle accepted by our people. I adopt the principle of restricting liability to the investment of shareholders".

(b) The source of popular credit must be popular thrift.

Mr. Desjardins felt strongly that popular credit, to be in line with our trading economy which requires heavy capital investments, and also to be fully effective, should feed on popular savings; it should even promote the practice of popular thrift, as thrifty habits insure proper credit training; he rightly believed that credit, in order to be both



...on unlimited liability co-
...could not see how it could effectively adjust to
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...companies; he felt, however, as no himself would
...nized in a letter dated October 18, 1900, to Charles
...Rayner, chairman of the board of directors of the National
...in France, the director of the French Federation
...the credit position of France, however he understood
...the first consideration of this case was to secure
...it would be impossible to get any money to exchange
...the principle of unlimited liability which was the
...basis of the European co-operative credit society.
...he wrote, in that I feel sure to be responsible
...to have such a principle accepted by the people.
...I about the principle of unlimited liability
...to the Government of Switzerland.

(The following is a translation of the above into English.)

...credit, as he is in line with our trading company which
...treatment being capital investment, and also to be
...this objective, should lead to regular savings if
...at family level, having already been established in
...which is the main reason for the success of the system.



popular and effective, should first be popular in having its source of supply among the people, then in being controlled by the people concerned, who should assume responsibility for its sound administration and for its judicious and low cost distribution; thus it would be true to its goal, which is to effectively meet the credit needs of the working classes. The experience of mutual credit societies in Europe had persuaded him that co-operation should provide the basis principles of an effective popular credit system, because co-operation, apart from requiring personal effort, individual initiative and foresight on the part of credit users, greatly increases their individual strength by uniting and combining their efforts and enabling them to settle their common problems themselves, in a spirit of pride and solidarity.

It therefore appeared to Mr. Desjardins that a popular credit co-operative should first be a savings institution; that is to say an institution which would teach our people the value of foresight, economy or sound administration, and small savings; thus our working classes, while gaining moral strength by practising the virtues of foresight and mutual help, would eventually supply their own credit institutions from their own savings. Such a popular credit institution would therefore have to be both a savings co-operative and a credit co-operative. Mr. Desjardins did not believe that our people's economy could be organized without first encouraging



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administration and for the judicious and low cost
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It therefore appeared to Mr. Defontaine
that a popular credit co-operative should first be
a savings institution; that is to say an institution
which would teach our people the value of foresight,
economy in sound administration, and social savings;
that our working classes, while gaining moral strength
...
help, would eventually supply their own credit needs
outdoors from their own savings. From a popular
credit institution would therefore have to be born
a savings co-operative and a credit co-operative.
Mr. Defontaine did not believe that our people's
... could be organized without first understanding



1 a sense of foresight and sound economy among the
2 working people and without harvesting the small
3 savings that would result if these virtues were
4 practiced by our working classes. In a letter dated
5 October 18, 1900, addressed to Charles Rayneri,
6 director of the Centre Federatif du Credit populaire
7 de France, Mr. Desjardins said:

8 "With regard to savings, I want our societies
9 to be genuine educational institutions which
10 will teach our people how to practice this
11 social virtue, and to this end we shall accept
12 even five cent deposits."

13 Mr. Desjardins established the fact that
14 there was not much money to be found among the people
15 and that they were not in the habit of saving.
16 He stated in his evidence to the special parliamentary
17 committee studying the bill on co-operative and
18 industrial societies that "The man on the street
19 gives no thought to putting money aside because in
20 his opinion it is not worthwhile to do so".
21 In his brief on the organization of agriculture
22 in the province of Quebec Mr. Desjardins spoke of
23 the "contempt shown for putting money aside" and
24 the "disregard for small economics" which exist in
25 our country as "national failings" and cause both
26 individual and collective poverty and suffering; they
27 are an overall source of evil for they hold our
28 population in a deplorable state of economic dependence.

29 A co-operative credit society must therefore
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first be a co-operative savings institution, because it teaches the use of credit while acting as a source of credit. The teaching of thrifty habits is the primary task among the small people. Capital grows like a river. It is a matter of gathering all the savings, channelling them and shaping them into an economic power. The first task of the *caisse populaire* is to stimulate and collect the savings of the people and train the people in the proper use of credit. Its second function is to harness the savings through productive or profitable loans to those who need credit and are able to make good use of it.

On what basis did Alphonse Desjardins establish this co-operative savings and credit institution?

On what standards does it operate in order to be a real good school of foresight, economy, and thrift, and to attract the small savings and distribute credit in a wise, effective and economic way?

Mr. Desjardins first considered the family. He fully realized that the family, being the primary element of society, is the first co-operative. Based on the mutual love of parents and children, the family became, with the advent of Christianity, the greatest of social forces. Its success is due to co-operation fortified by Christian charity.

Mr. Desjardins then noted that the parish was a co-operative association of families. Living on a restricted territory within the same parochial community, its members know and appreciate each other.



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... on a restricted territory within the same parochial
... community, the members know and appreciate each other



1 They are bound by a community of ideas and goals
2 which breeds mutual respect and confidence. The
3 parish acts as a link, enabling families to co-
4 operate in public institutions such as the fabrique,
5 the municipal council, the school board; it calls
6 for their participation in dealing with common
7 problems. Their many and close contacts, their
8 sharing in the same social activities develop a
9 community of spirit and ideas, as well as conditions
10 that are favorable to the effectiveness of a
11 savings and mutual loan co-operative.

12 In studying the social environment to which
13 he was seeking to adjust his caisse populaire, Mr.
14 Desjardins saw in the parish, where co-operation is so
15 effectively practised, the perfect framework which
16 could provide the caisse populaire with a simple
17 and inexpensive machinery, while ensuring ease of
18 control and great operational efficiency. In the
19 mutual acquaintance of the members, he saw a basic
20 element, a condition of effectiveness and a guarantee
21 of security. In his view, such a restriction of the
22 operations of his caisse populaire to a small
23 territory should apply not only to active operations,
24 such as loans which would be granted only to the
25 members, all living within the territory, but also
26 to passive operations such as savings deposits,
27 which would be accepted only from the members. That
28 is how Mr. Desjardins thought it should be. As he
29 puts it in his pamphlet on the caisse populaire,
30 "we have decided to limit the social activities and



They are bound by a community of ideas and goals which breeds mutual respect and confidence. The parish acts as a link, enabling families to co-operate in public institutions such as the Fabrique, the municipal council, the school board, etc. For their participation in social life with common problems. Their many and close contacts, their sharing in the same social activities develop a community of spirit and ideas, as well as conditions that are favorable to the effectiveness of a saving and mutual loan co-operative.

In studying the social environment in which he was asked to adjust his co-operative, Mr. Postcard saw in the parish, whose co-operation is effectively guaranteed, the perfect framework which could produce the desired results with a simple and inexpensive machinery, while ensuring ease of control and great operational efficiency. In the actual adaptation of the scheme, he took a basic element, a condition of effectiveness and a guarantee of security. In his view, such a restriction of the operations of the co-operative to a small community should apply not only to active operations, even as loans which would be made only to the members, but also to passive operations such as saving societies, which would be accepted only from the members. That is how Mr. Postcard thought it should be. As he goes to his campaign in the co-operative, "We have decided to limit the social activities and



1 membership of a caisse populaire to a single and
2 very small territorial unit". The very small
3 territorial unit referred to is the parish, which
4 he described as "the perfect environment for such
5 an institution". "The caisse populaire," he
6 wrote, "is a parochial organization; it is born,
7 grows, develops and prospers in the midst of the
8 parochial community. The parish is its natural
9 birthplace, its focus of activity and it should
10 not overstep its limits".

11 The thinking of the founder of the caisses
12 populaires on this matter was no doubt based on the
13 opinion that it was neither wise nor economically
14 sound to attract depositors from all sections of an
15 area by means of high interest rates and active
16 publicity, as this might drain into one area too
17 much capital for its needs, at the expense of another
18 area. Such a policy could easily lead to the temp-
19 tation, for powerful caisses populaires, to go outside
20 their normal field of activity and invest their
21 surplus savings in loans, thus negating the basic
22 principles which guarantee its security and effective-
23 ness. Experience has, in fact, confirmed the value of
24 limiting the operations of savings and credit co-
25 operatives to a restricted territory, where the
26 members are mutually acquainted and where it is
27 easier to loan money wisely and inexpensively. Twelve
28 hundred and fifty (1250) caisses populaires Desjardins
29 affiliated to the Federation de Quebec des Unions
30 regionales des caisses populaires Desjardins are in



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1 operation in the province of Quebec. The great
2 majority of the caisses populaires Desjardins are
3 parochial institutions, and share the benefits
4 offered by our parochial community organization.

5 The citizens of a parish know and trust one
6 another, and will be inclined to help one another through
7 their caisse populaire. The fact that they are not
8 all of the same trade or occupation is a factor of
9 stability for their caisse populaire, and a slowdown
10 in a particular economic field (for example the
11 closing of a local industry) will not jeopardize the
12 caisse populaire. With a membership representing
13 various occupational or trade groups, the caisses
14 populaires Desjardins are in a better position to
15 weather economic recessions or periods of unemployment.

16 The parish, in turn, benefits from the
17 operations of the caisse populaire. "It cannot be
18 denied", writes Mr. Desjardins in his pamphlet,
19 "that an economic organization based on the parish
20 unit will necessarily strengthen the ties that bind
21 our people to their church, making it dearer to their
22 hearts because it will symbolize not only their
23 most noble aspirations but also their material needs,
24 which after all are not to be forgotten. Making the
25 parish a solidly co-operatized focus of every activity
26 directed towards the physical well-being of the people
27 can do no harm to its supernatural mission. Such a
28 close alliance of all the interests involved can only
29 produce healthy results, as mutual support will only
30 make their efforts more effective".



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close alliance of all the interests involved can only

produce healthy results, as mutual support will only

take their efforts more effective.



1 The caisse populaire adds a useful element
2 to the parish organization. The municipal council
3 looks after the civic affairs of the parish, whereas
4 the schoolboard is responsible for the education
5 of children. There was a need for a popular savings
6 and credit institution to provide financial help
7 for the organization and development of the
8 community's economic life. With the savings
9 harvested within the parish, the caisse populaire has
10 in hand a source of capital which is placed at
11 the disposal of those who can use it productively or
12 to advantage. It stimulates a healthy circulation
13 of capital lends support to local enterprise and
14 helps the citizens buy their own homes.

15 On the model of the Schulze 'People's
16 Banks' and of the Raiffeisen rural credit co-
17 operatives, and with elements borrowed from the
18 mutual savings banks existing in the New England
19 States, Mr. Desjardins built a savings and credit
20 co-operative. Under co-operative principles,
21 he was able to co-ordinate savings and credit in a
22 single institution solidly based on the parish,
23 in such a way as to use the people's savings to
24 provide credit for the people in an effective and
25 inexpensive way. In studying the operation of the
26 French 'caisses d'epargne', Mr. Desjardins had
27 noted that attempts to reform those institutions
28 (1885-1895) had led to the adoption of the co-operative
29 system and to the addition of a mutual credit service
30 as a means of using savings deposited by the French



1 farmers and craftsmen to provide popular credit. He
2 had also noted, in studying savings institutions
3 in other European countries, that the German savings
4 banks, near the end of the last century, provided real
5 credit (secured by real or personal property), and
6 in such states as Bavaria, even provided a small
7 amount of personal credit (secured only by the
8 borrower's moral character.) The Prussian savings
9 banks used a substantial part of their funds
10 deposited in savings accounts to provide mortgage
11 loans; by granting credit on real property, they
12 helped the farmers improve their land. The reform
13 movement in the French 'caisses d'epargne' for the
14 co-operative use of their considerable capital by
15 the working classes, and the policy of the German
16 savings banks to provide agricultural credit on
17 the security of real property, and also a certain
18 amount of personal credit, confirmed Mr. Desjardins
19 in his plan to organize a savings and loan co-
20 operative society adjusted to Canadian conditions,
21 based on the principles of the Schulze people's banks
22 and of the Raiffeisen banks, and with elements
23 borrowed from the American mutual savings bank.
24 Recognizing the true value of the traditions of
25 thrift which existed to some extent in certain
26 classes thanks to the banks, the Caisse d'Economie,
27 the Savings Bank of the City and District of Montreal,
28 and considering at the same time the great
29 opportunities offered by our parochial structure in re-
30 lation to his caisse populaire, Mr. Desjardins thought



banks, near the end of the last century, provided real
credit (secured by real or personal property), and
in such cases as I have seen, even provided a small
down payment (usually 10% of the purchase price).
The Federal Reserve banks (The Federal Reserve banks)
banks used a substantial part of their funds
deposited in savings accounts to provide mortgage
loans, by granting credit on real property, they
helped the farmers improve their land. The Federal
movement in the Federal Reserve banks, for the
cooperation use of their considerable capital by
the working classes, and the policy of the German
savings banks to provide agricultural credit on
the security of real property, and also a certain
amount of personal credit, and the Federal Reserve
in his plan to organize a savings and loan co-
operative society adjusted to German conditions,
based on the principles of the German people's banks
and of the Christian banks, and with the
downward from the American financial system.
Regarding the conditions of the organization of
these banks, it is noted in some extent in certain
classics thanks to the banks, the Federal Reserve
and Savings Bank of the City and District of Columbia
and considering at the same time the German
opportunities offered by the German banks in the



1 he could use these traditions of thrift and the
2 parish structure as a solid and permanent basis for
3 a savings and credit co-operative institution that
4 would provide machinery to encourage thrift, and
5 redistribute credit to the working classes in a
6 sound, adequate and effective manner. The parish
7 was the link which enabled Mr. Desjardins to success-
8 fully combine into a single organization governed
9 by co-operative principles the twin economic
10 functions of providing the machinery to promote
11 popular thrift and of distributing credit to the
12 people.

13 The subsequent growth and effectiveness of
14 the caisse populaire movement proved that he had
15 been right. "Having carefully studied the mutual
16 savings banks of several American states and looked
17 at their results", he writes in his pamphlet on
18 the caisse populaire, "we came to the conclusion
19 that our own economic units of an exclusively
20 parochial nature should be established on a similar
21 basis". Mr. Desjardins wanted a co-operative
22 credit system. The conclusive experience of the
23 Raiffeisen village banks and of the Schulze people's
24 banks had convinced him that only a co-operative
25 system of credit distributed on a decentralized basis
26 could meet the credit needs of the working classes
27 in a wise, flexible and inexpensive way. Popular
28 credit could be provided effectively and democratically
29 by means of a local co-operative savings and credit
30 association: the Caisse Populaire Desjardins.

Would provide machinery to encourage thrift, and



4. PURPOSES OF THE CAISSES POPULAIRES DESJARDINS

The founder has defined the objects of his caisse populaire in the following terms, as found in article 2 of the Constitution of "La Caisse Populaire de Levis", the first such institution, which was founded in 1900.

1. To protect its members against reverses of fortune, the results of enforced idleness, sickness and want, by teaching them the inappreciable benefits of wise providential measures based on mutual assistance and co-operation, and, in particular, by instilling and developing in them the taste for, and the constant and energetic practice of, economy on the most modest scale;
2. To aid them by a wise and prudent system of credit in the form of loans and advances, the proposed employment whereof must be communicated to the association, be approved by it, and be in accordance with the spirit in which it is founded;
3. To enable persons devoid of fortune but who are honest and laborious, to form part of the association by granting them facilities for paying up their shares in the capital stock by means of very small weekly instalments;
4. To secure the practice of the Christian and social virtues that mark the good citizen, the honest, laborious and honourable worker, by exacting above all moral warranties of the



highest order from the shareholders who
borrow from the association;

5. To combat usury by means of co-operation, by
providing all who are deserving of the same,
through their fondness for work, their skill
and the integrity of their conduct, with the
moneys they require for carrying on their business
or occupation, thereby making them independent
of lenders who levy exorbitant commission or
interest, or of those who impose too onerous
conditions in connection with credit;

6. To foster the spirit of enterprise and pro-
mote local works, whether of an industrial
or agricultural character, by the prudent use
of the savings effected within the district
covered by the association's operations;

7. To spread amongst its members a practical
knowledge of the elementary principles of
economic science.

8. To teach them respect for their engagements,
and also the advantages inevitably derived by
those who faithfully fulfil the obligations
they have undertaken;

9. To create and foster mutual confidence
between shareholders by means of economic
relations based on the security of warranties
of a high character, inasmuch as they are
founded, in a very great measure, on morality,
honesty, order, love of work and prudence;

10. To gradually procure them -- by persevering



...the ...

...from the association;

5. To conduct ... by means of co-operation, by

providing ... who are deserving of the same.

...with the

and the integrity of their conduct, with the

...the ...

...the ...

...the ...

...the ...

conditions in connection with credit;

6. To foster the spirit of enterprise and pro-

vide local work, whether of an industrial

or agricultural character, by the product use

of the savings effected within the district

covered by the association's operations;

7. To spread amongst its members a practical

knowledge of the elementary principles of

...the ...

To keep them engaged in their endeavours,

and also the advantages thereby derived of

those who faithfully fulfil the obligations

they have undertaken;

8. To create and foster among the members

between themselves by means of economic

relations based on the security of warranties

of a high character, inasmuch as they are

founded, in a very great measure, on honesty

honesty, order, love of work and probity;

9. To gradually procure them -- by perse-



1 efforts towards securing economy and con-
2 sequently a just measure of credit -- that
3 economic independence which inspires and
4 fosters the feeling of personal dignity
5 and convinces one of the need of relying
6 above all upon oneself to improve one's posi-
7 tion and raise oneself in the social scale.

8 (a) Teaching thrifty habits and the use of credit.

9 The primary function of a caisse populaire
10 is to stimulate savings, receive, hold and hand them
11 back to its members on demand: Despite the fact that
12 men have intelligence and foresight,
13 thrift is not a natural human quality; by nature,
14 man is not inclined to save. Citizens therefore
15 need protection, because at certain times, they are
16 more inclined to spend their money than to save it.
17 The credit union provides this safeguard. It promotes
18 thrift, constantly calling attention to its necessity,
19 facilitates the deposit of savings and is of easy
20 access to all. All small savings must be collected,
21 as otherwise, they run great risks of being squandered.
22 Credit unions try to salvage small savings, which
23 are earned by hard work. Apart from providing
24 facilities for deposits, the Caisses Populaires
25 Desjardins ensure the security and promote the
26 proper use of savings. It is a golden rule which
27 they make it a point to follow in carrying out their
28 primary function as savings co-operatives.

29 In an address to a youth convention held
30 in Quebec City in 1908, here is what the founder of the



1906
1907

... towards securing economy and con-
serving a good measure of credit -- that
...
...
and continues one of the main lines of relief
above all upon oneself to improve one's posi-
tion and raise oneself to the social scale.
(a) Teaching thrift habits and the use of credit.
The primary function of a credit cooperative
is to stimulate savings, receive, hold and lend them
back to its members on demand. Despite the fact that
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Co-operators ensure the security and promote the
proper use of savings. It is a golden rule which
they make it a point to follow in carrying out their
primary function as savings co-operators.
In an address to a youth convention held
in Quebec City in 1906, here is what the founder of the



1 caisses populaires had to say on the matter.

2 "Some will object and say: Why have savings
3 co-operatives when we have banks that collect
4 savings everywhere through their branch offices?
5 First of all, banks are not created for the
6 purpose of contributing to the welfare of the
7 people generally or of solving social problems
8 on the economic level. The thought has never
9 occurred to them, and happily so, because they
10 are in no way equipped for such a mission. They
11 would therefore certainly fail in such a task,
12 and would be less successful in making profits
13 for their shareholders, which is their single
14 purpose. Let each institution pursue the
15 particular ends for which it was created, and
16 things will be all to the better.

17 In the second place, is it true that the
18 banks reach into every community? Apart from
19 the economic danger of such a constant drainage
20 of local savings for the sole benefit of the
21 larger centres, and within those centres, for
22 the sole benefit of a certain number of customers,
23 is it not true, despite the disturbing growth of
24 the branch offices, particularly in the past
25 few years that the vast majority of our parishes
26 are without such storehouses of savings? The
27 explanation is quite simple; it is that the
28 banks is a company created for the sole benefit
29 of its shareholders, and not a social institution
30 primarily designed to serve the people to the



all these regulations had to say on the matter.

"Some will object and say: why have savings

been everywhere through these branches of local

savings everywhere through these branches of local

First of all, banks are not created for the

purpose of accumulating in the hands of a few

people generally or of (certain) classes

on the economic level. The savings banks

occurred to them, and happily so, because they

are all the more numerous the more the savings

would therefore certainly fail in such a bank.

and would be less successful in making profits

for their shareholders, which is their single

purpose. Let each institution pursue the

particular ends for which it was created, and

things will be all the better.

In the second place, is it true that the

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the sole benefit of a certain number of customers

is it not true, despite the disturbing growth of

the branch offices, particularly in the past

few years that the vast majority of our business

are without such scoreboards of savings? The

explanation is quite simple: it is that the

bank is a company created for the sole benefit

of its shareholders, and not a social institution

primarily designed to serve the people in the



" limit, without any hope of substantial profit. What the banks is after is profits to fatten the year-end dividends. That is the undisguised truth. Now there are many parishes where the operation of an agency or branch office would be a source of loss rather than gain. The banks therefore stay out. Is this surprising or regrettable? Far from regretting it, we should welcome it if such a default has the effect of stimulating local initiative and causing the people to create a much more beneficial storehouse, one that will be much more appropriate to the needs of our parishes, in the form of a *caisse populaire*.

Finally, banks do not grant credit to the poor. They lend mainly to people in big industry and business While we are not too concerned with the fate of the banks, knowing full well that they are able and of a mind to look after themselves, we can say that the growth of credit unions would be much to their advantage, as it would increase the flow of savings, and thereby the total wealth of the country, thus increasing economic activity, something which undoubtedly would be beneficial to the banks. Such has been the experience elsewhere, and there is no reason why it would not happen here. Since when have elementary schools been harmful to the university? Must not one learn to read and write before attending an institution of



1. The first question is whether the Government of India

2. has the funds in which it is possible to raise

3. the year-end dividend. That is the main

4. question. Now there are many questions there

5. the operation of an agency or private office

6. would be a source of loan rather than gain.

7. The second question is whether the Government

8. should or should not have a loan of Rs. 100

9. we should welcome it if such a loan had the

10. effect of stimulating local initiative and energy

11. the people to create a much more beneficial

12. atmosphere, one that will be much more sympathetic

13. to the needs of our villages, in the form of a

14. social programme.

15. Finally, thanks to not grant credit to the

16. poor. They lend money to people in big industry

17. and business. While we are not too con-

18. cerned with the fate of the banks, knowing that

19. well that they are able and of a mind to look

20. after themselves, we can say that the growth of

21. credit unions would be much to their advantage.

22. It would increase the flow of business, and

23. thereby the local wealth of the country. This

24. is the main reason why the Government should

25. seriously consider the possibility of the banks.

26. There has been too experience elsewhere, and

27. there is no reason why it should not happen here.

28. There have been elementary schools been started

29. in the universities? But not one has been started

30. and the same is true of the universities.



" higher learning? The credit union is the economic elementary school. No matter what may happen, large banks will never collect penny savings, as this would be too costly in view of their luxurious organization and highly paid staff; a local credit union, however, can easily do this, first through a sense of duty and secondly because of its very method of operation, which is based on social dedication."

The purposes pursued by credit unions through the distribution of credit and the repayment of loans by means of small regular instalments are no different from their goals as savings co-operatives. The credit department of a Caisse Populaire Desjardins is based on the same principles and directed to the same goals as the savings department -- the economic and social improvement of its members -- and the method used in both cases is always the practice of foresight economy and thrift. By having to make small payments on loans, borrowers are encouraged to use foresight and save to repay their loan bit by bit, and to improve their economic and social conditions. This explains why the credit committee must know the purposes of a loan and make sure that it will be truly useful and beneficial to the borrower. It also explains why the credit committee requires borrowers to pledge themselves to small regular payments on their loan, as a means of inciting them to put their financial house in order, use foresight, live moderately and practice, and to make sustained efforts to organize their



higher learning? The credit union is the answer.
Temporary school. No matter what may happen,
the future will be bright and sunny.
as this would be the case in view of their
taxation organization and highly paid staff.
a local credit union, however, can easily be
this, first through a sense of duty and secondly
because in the first place it is a social institution
it is based on social deduction.

The purposes pursued by credit unions

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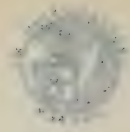
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useful and beneficial to the borrower. It also explains
why the credit committee requires borrowers to pledge
themselves to small regular payments. In their loan, as
a means of inducing them to put their financial house
in order, use forethought, live moderately and honestly
and so make sustained efforts to improve their



business and living habits in such a way as to save money to improve their economic and social conditions. Such is the task of economic and social education performed by the members of a credit committee when they are true to the spirit of the founder, who wanted the caisse populaire to be, in every parish a practical school of economic and social education for the citizens.

(b) Economic education in the homes

The Caisses Populaires Desjardins, as we have pointed out, play an educational role within the parish, teaching foresight, economy, thrift and the use of credit. Their purpose is not only to protect the savings deposited with them and to see that they are properly used, but also to consider effective ways and means of teaching families to manage their affairs properly. When the families in a parish get together to set up a caisse populaire, it is to practice mutual help. Such mutual help is not restricted to the holding and proper use of savings; it must also cover the administrative education of householders. One need only to give some thought to the purposes of a caisse populaire as described in the general statutes of the movement to realize this. The growth of savings has been too slow in Canada to meet the investment needs of an expanding economy. Moreover, either in spite or because of the higher salaries and incomes enjoyed by Canadians, consumer debts have risen considerably since the last war. The standards of living, goals and needs of the family have



business and living habits in such a way as to save money as far as possible their economic and social conditions. Such is the task of economic and social education performed by the members of a credit committee when they are true to the spirit of the founder, who wanted the entire population to be, in every part, a practical school of economic and social education for the citizens.

(c) Economic education in the future

The entire population (including, as we have pointed out, play an educational role within the nation, teaching foreign, economy, thrift and the use of credit. Their purpose is not only to protect the savings deposited with them and to see that they are properly used, but also to render effective use and means of teaching families to manage their affairs properly. When the families in partnership together to set up a credit committee, it is to practice mutual help. Such mutual help is not restricted to the making and proper use of savings; it must also cover the educational education of householders. One must only give some thought to the purpose of a credit committee as described in general character of the movement to realize it. The growth of credit has been slow in India and need the investment needs of an expanding economy. However, there is a light of the future. Initiatives and incomes enjoyed by individuals, companies have been considerably since the last year. The standards of living, costs and needs of the family



undergone great changes as a result of the industrialization and urbanization of our society.

Conscious of their responsibilities to the working classes, and wishing to be adequately informed on present day living conditions and essential needs in our homes, the Federation and the Assurance-Vie Desjardins have asked the committee of economic and social research of the Laval University Faculty of Social Science to undertake a scientific study of living conditions, economic behaviour, aspirations and needs of wage-earning families in Quebec.

This study will reveal the factors affecting the behaviour of families in relation to thrift and the use of credit in relation to their consumer needs. It will define their living conditions, goals, and needs, and will provide scientific data that will enable the Federation des Caisses Populaires Desjardins to design budgets for families of different social environments. The data from such a study will help the leaders of the caisses populaires movement to develop policies concerning savings and credit, and will help them select the most appropriate ways and means of teaching families how to manage a household, make better use of consumer credit and provide for the future.

5. BASIC PRINCIPLES

The Caisses Populaires Desjardins are based on the following co-operative principles:

(a) One member, one vote

A Caisse Populaire Desjardins is a savings



1941

Report

Number

Report of the Committee on the Study of the

Needs of the People of the United States

in the Field of the Study of the

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The Committee on the Study of the

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of Social Science to undertake a scientific study of

the needs of the people of the United States

and needs of wage-earning families in Quebec.

This study will reveal the factors affecting

the development of families in relation to family and

the use of credit in relation to their consumer needs.

It will define their living conditions, goals, and

needs, and will advise the government and the people

the Commission des Classes Populaires Quebec.

to design programs for families of different social

environments. The data from such a study will

help the leaders of the various population movements to

develop policies concerning savings and credit, and

will help them select the most appropriate ways and

means of teaching families how to manage a household.

make better use of consumer credit and provide for the

needs of the people of the United States.

The Commission des Classes Populaires Quebec was based

on the following co-operative principles:

(a) The Commission des Classes Populaires Quebec

(b) The Commission des Classes Populaires Quebec

(c) The Commission des Classes Populaires Quebec

(d) The Commission des Classes Populaires Quebec



1 and loan co-operative. The citizens of a parish who
2 freely join together to establish and operate such
3 an institution are the owners of that institution and
4 share equally in its management. Each member has a
5 single vote, no matter how many shares he owns. In
6 his submission to the Special Committee of the
7 House of Commons on the bill respecting industrial
8 and co-operative societies (1907) Alphonse Desjardins
9 wrote:

10 "What illustrates more than anything else
11 the essential difference existing between
12 a joint stock company and a co-operative
13 association is the principle of 'one share-
14 holder, one vote'. Unlike the society based
15 on capital, whatever may be the number of
16 shares one has, be it large or small, he has
17 only one vote. This system is the direct
18 outcome of the central idea that should always
19 prevail in a co-operative association, that of
20 an aggregation of individuals, not of dollars
21 or capital. One ought to have the privilege
22 of enjoying a large influence because he has put
23 in more money than his neighbour. The voting
24 power being the same for every member, no one
25 can exercise undue pressure on the management
26 of the association, or vote himself into any
27 office where he could control the affairs and
28 manage them according to his own selfish interests.
29 The danger of such societies falling into the
30 hands of shameless speculators, as happens every day



...The object of a partner who
freely join together to establish and operate such
an institution are the owners of that institution and
...
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...
...
...

"What illustrates more than anything else
the essential difference existing between
a joint stock company and a co-operative
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of the association, or vote himself into any
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manage them according to his own selfish interests.
The danger of such societies falling into the
hands of shameless speculators, as happens every day



1 in joint stock companies, is thereby removed. The
2 basic importance of this principle has been
3 universally recognized. There can be no true co-
4 operative society if this principle is not strictly
5 adhered to."

6 The parish caisse populaire is a society of
7 people; it is not a society of capital or a joint
8 stock corporation such as a bank or loan company.
9 In a caisse populaire, the vote is attached to the
10 person; in a bank, it is attached to capital stock,
11 i.e. to money. Members take decisions at the annual
12 or special meetings of the caisse populaire according
13 to the principle of one man, one vote, and not ac-
14 cording to the rule followed in capitalist enterprise,
15 where each shareholder has one vote for each share
16 he owns. Thus if shareholders of a joint stock bank
17 personally own or are proxies to the owners of fifty
18 per cent of the capital stock (who are absent from
19 the annual meeting) they can control the bank, take
20 administrative decisions and determine the distri-
21 bution of profits to the shareholders.

22 The shareholders of a caisse populaire are
23 at the same time its owners, users and beneficiaries.
24 They give it their savings to administer, and borrow
25 from it when they need money. They select from
26 among themselves the members of the three boards or
27 committees responsible for managing the caisse populaire,
28 granting loans and generally supervising the
29 administration. The mutual relationships of the
30 members are therefore on a basis of a social equality



operative society is this principle is not strictly

The parish census population is a society of people; it is not a society of capital or a joint stock corporation such as a bank or a company. In a census population, the vote is attached to the person; in a bank, it is attached to capital stock. i.e. to money. Members take decisions at the annual or special meetings of the census population according to the principle of one man, one vote, and not according to the rule followed in capitalist enterprises where each shareholder has one vote for each share he owns. Thus if shareholders of a joint stock bank personally own or are proxies for the owners of fifty per cent of the capital stock (who are absent from the annual meeting) they can control the bank, make administrative decisions and determine the distribution of profits to the shareholders.

The principle of a census population is that all the members of the population are equal and have one vote each. They elect from among themselves the members of the three bodies or committees responsible for managing the census population. These three bodies are generally designated as the administration, the financial administration or the economic administration.



1 in accordance with the co-operative principle of one
2 man. one vote.

3 (b) Freedom to join and withdraw

4 The founding members of a caisse populaire
5 and other citizens in the parish who join in later
6 are freely associated.

7 The citizens of the parish are therefore free
8 to join the caisse populaire, or to withdraw their
9 membership. A co-operative institution, the caisse
10 populaire is based on persuasion rather than coercion.

11 (c) Distribution of overpayments or net operational
12 surpluses to members according to their transac-
13 tions and limitation of interest on capital

14 The Caisse Populaire Desjardins is a
15 combination of two co-operatives: the savings co-
16 operative and the credit co-operative. It combines
17 two functions previously performed by two separate
18 institutions: the "casse d'epargne" and the credit
19 co-operative. In Europe, credit co-operatives
20 are supplied, at least in part, by means of loans
21 from "caisses d'epargne" commercial banks.

22 This dual function of the caisse populaire must
23 be born in mind if one is to fully understand how it
24 applies the co-operative principle of distributing
25 the net surplus on operations to members in proportion
26 to their transactions with the caisse populaire.

27 Any co-operative has two essential elements:

- 28 1. It is an association of people;
29 2. It is an economic venture.



THE CO-OPERATIVE MOVEMENT

and other classes in the world who join in labor
are freely associated.

The objects of the co-operative movement are to
to join the co-operative movement, or to withdraw their
membership. A co-operative movement is the co-operative

THE CO-OPERATIVE MOVEMENT

The co-operative movement is a
movement of two co-operatives, the co-operative co-
operative and the credit co-operative. It is a
two fold movement, performed by two separate
institutions: the "co-operative" and the credit
co-operative. In the co-operative, credit co-operative
are supplied, or loans to part, by means of loans
from "co-operative" co-operative.

There are two divisions of the co-operative movement
be born in mind it is to be fully understood that it
and the co-operative movement of distributing
the co-operative movement to members in co-operative
co-operative movement with the co-operative movement.

1. It is a movement of people.
2. It is a movement of people.



This gives rise to two basic rules:

- (a) the rule of equality among members in their mutual relations within the co-operative,
- (b) the rule of proportionality in the distribution of net operational surpluses to the members.

The rule of equality involves the application of two co-operative principles:

1. One man, one vote, which places all members on an equal footing in the management and control of their caisse populaire;
2. Equal freedom for all to join or not to join the caisse populaire.

The rule of proportionality governing the relations of the credit union with its members in economic matters involves the application of two co-operative principles under which net surpluses on operations or overpayments must be refunded to the members in proportion to their transactions with their credit union. This requires:

1. a limitation of the interest on capital;
2. the distribution of net operational surpluses to the members pro rata to their transactions with the credit union and not in proportion to their capital.

How does a credit union distribute its net operational surpluses? It pays a limited interest rate on capital (membership shares) and on savings. The interest on shares is slightly higher than the interest on savings. The reason for this is that the financial liability of members is legally restricted



There are two basic rules:

1. The rule of equality among members in their

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2. The rule of equality in the distribution

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on operations or overpayments must be refunded to

the members in proportion to their transactions with

credit union. This involves:

1. A limitation of the interest on deposits;

2. The distribution of net operational surpluses to

the members pro rata to their transactions with

the credit union.

How does a credit union distribute its net

operational surpluses? It pays a limited interest

rate on capital (membership shares) and on savings.

The interest on shares is slightly higher than the

interest on savings. The reason for this is that the

financial stability of members is legally guaranteed.



1 to their shares. The shares (which involve co-ownership)
2 are therefore subject to a certain amount of risk
3 that does not affect savings. It should also be
4 noted that the member pays an entrance fee of
5 every share that he buys. In addition to being a
6 direct contribution to the reserve fund of the
7 caisse populaire, the entrance fee serves to
8 stabilize the share capital; as it is not refundable,
9 the member is likely, once he has paid it, not to
10 withdraw his shares without serious reasons. This
11 explains why the caisse populaire pays its members a
12 higher interest rate on share capital. This interest
13 on shares is called a bonus to differentiate it from
14 interest on savings. It is obviously different
15 from a dividend, which in a bank, represents a
16 distribution of profits on the shares. If the bonus were
17 a dividend, it would follow the profit curve in the
18 same way as a dividend, and the higher the profit or
19 net surplus, the higher the bonus. But such is not the
20 case: the Caisses Populaires Desjardins limit
21 interest on share capital and savings. They treat
22 capital as a good servant, to whom they pay a
23 reasonable wage.

24 Members deposit their available savings with
25 their caisse populaire in order that the money may
26 be loaned to other members who need money. The caisse
27 populaire pays its depositor members a limited interest,
28 and charges its borrower members a slightly higher
29 rate. The excess of interest received on loans and
30 investments over interest paid on savings should pro-



...the amount of ...
...that does not ...
...noted that the ...
...every share ...
...direct contribution ...
...Chinese population, the ...
...established ...
...the member is ...
...without his ...
...existing ...
...higher interest ...
...or shares is ...
...interest on ...
...from a dividend, ...
...distribution of ...
...a dividend, it ...
...same way as a ...
...net surplus, ...
...case: the ...
...interest on ...
...equity as a ...
...responsible ...
...Members ...
...be issued to ...
...population ...
...and charges ...
...trace. The ...
...investments ...



vide a net surplus adequate to cover administration costs, to build up the reserves deemed necessary to consolidate the financial position and offset possible losses, and to pay a reasonable interest or bonus on membership shares which determine the co-ownership of the member

A caisse populaire is not in the money market.

It does not allow a small number of shareholders to make handsome profits on the savings of the membership as a whole. Only its members can deposit their savings with the caisse populaire, and only its members may take out a loan. They pool their savings for their own use, and not so that a small group within their ranks will make profits on the other members' money. It neither borrows money nor accepts deposits from other than its members to loan the money for a profit.

Banks, on the contrary, accept deposits of money from anyone and loan to anyone if they think it is good business; they are in the money market, accepting deposits from the public and loaning the money at a higher interest rate for profit. Such profits are divided among their shareholders on the basis of the number of shares they individually own in the bank; as the term dividend clearly implies, profits are divided among the shareholders according to the size of their holdings.

Of course, a caisse populaire cannot exactly foresee the total amount of administration costs or the amount of interest to be paid on shares and savings, as these necessarily vary. If therefore



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ship shares which determine the co-ownership of the firm.
A share capital is not in the money market
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other members' expense. It is not common money to
accrue separately from other funds as members to
earn the money for a profit.
Banks, on the contrary, accept deposits of
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profits are divided among their shareholders on
the basis of the number of shares they individually
own in the bank as the bank dividend clearly implies
profits are divided among the shareholders according
to the size of their holdings.
Of course, a share capital cannot operate
for the total amount of administration costs or
the amount of interest to be paid on shares and
savings, as these necessarily vary. It cannot



1 charges and interest rates which, in all probability,
2 will more than cover total expenditures and payable
3 interests, plus a contribution to the reserves. If
4 at the end of a financial year there is a net surplus
5 after payment of a reasonable bonus on membership
6 shares, the caisse populaire repay to its borrowers
7 the excess interest charged on loans. By means of
8 this refund or return of net surpluses, operations are
9 brought back to cost.

10 The amount of this return necessarily varies
11 according to the amount of surplus interest charged
12 on loans. The higher the loan, the higher the
13 interest paid, and therefore the higher the amount
14 returned to the borrower. Thus the rule of pro-
15 portionality is applied to the return of overpayments,
16 net surpluses being distributed in proportion to the
17 transactions between the borrowers and their caisse populaire

18 In dealing with the distribution of net
19 surpluses, Mr. Desjardins writes in his pamphlet on
20 the caisses populaires:

21 "Now credit unions have made it an iron-clad
22 rule to treat them (depositors and borrowers)
23 both with equal justice".

24 Whenever the bonus is raised, loans terms are improved.
25 This is an application of the co-operative system
26 on which savings and credit societies are based.
27 Though it is a new principle in this field, it is
28 a commendable one, based on true equity and solidarity.
29 Moreover, it must not be forgotten that borrowers
30 also benefit from increased bonuses, because they



1 also own shares on which the bonus is paid. It there-
2 fore follows that all members have a double interest
3 in the successful operation of the caisse populaire, both
4 as depositors and as possible borrowers.

5 It was Mr. Desjardins' intention that his
6 caisse populaire should treat depositors and borrowers
7 with equal fairness, by paying to the former a
8 higher interest rate on their shares, and in respect
9 of the latter by reducing the interest on loans by
10 means of returns whenever there is a net surplus on
11 operations.

12 The caisses populaires apply this principle
13 of fairness to all their members. This rule of
14 treating depositor members and borrower members with
15 "equal fairness" in the distribution of surplus
16 profits is set out in the following terms in article 46
17 of the general statutes of the Caisses Populaires
18 Desjardins:

19 "For any increase in the annual bonus
20 there shall be a corresponding improvement
21 in the terms of loans to members, either
22 in the form of a reduction in the interest
23 rate or otherwise."

24 It may also happen that at the end of a
25 year, there are no net surpluses to be distributed,
26 after deductions are made for interest on savings,
27 a contribution to the reserve fund in accordance
28 with the by-laws, and payment of a reasonable interest
29 on shares. In such a case, the caisse would not
30 issue returns to the borrowers, but would still remain



as deposits and as possible borrowers.

It was Mr. Desjardins' intention that his

entire population should treat deposits and borrowing

with equal fairness, in paying to the former a

higher interest rate on their savings, and in respect

of the latter by reducing the interest on loans by

means of rebates whenever there is a net surplus on

operations.

The various populations apply this principle

of fairness to all their members. This rule of

treating depositor members and borrower members with

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in the terms of loans to members, either

in the form of a reduction in the interest

rate or otherwise."

It may also happen that at the end of a

year, there are no net surpluses to be distributed,

after deductions are made for interest on savings,

a contribution to the reserve fund in accordance

with the by-laws, and payment of a reasonable interest

on loans. In such a case, the surplus fund will

be applied to the reduction of the interest rate on loans.



1 a true co-operative. It is a non-profit organization,
2 and has already provided its services at cost.

3 6. RULES AND METHODS OF OPERATION

4 (a) Limitation of the territory of operations

5 The first rule governing the organization of
6 a Caisse Populaire Desjardins is the limitation of its
7 territory of operations, or in other words the
8 limitation of its activities to a restricted group (the
9 parish) where the members know and have confidence
10 in each other.

11 The members of a caisse populaire must be
12 honest people and must be mutually acquainted. The
13 mutual acquaintance of members is a requisite for
14 the successful operation and effectiveness of a
15 caisse populaire, which could not be organized or
16 function if its members lacked confidence in one
17 another. It is therefore important that the members
18 be mutually acquainted and be honest citizens willing
19 to help one another.

20 The board of management of a caisse
21 populaire exercises close control over the acceptance
22 of new members, to ensure that applicants without the
23 required qualifications be kept out. Those qualifi-
24 cations are set forth in the following terms in
25 Article 7 of the Statutes:

26 "Must be honest, punctual in his payments, of
27 sober habits and industrious".

28 The Caisse Populaire Desjardins is based on the mutual
29 confidence of its members and their willingness to
30 help one another in a spirit of social justice and



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The first rule governing the organization of a Calase Populairie Desjardins is the limitation of its territory of operation, or in other words the limitation of its activities to a restricted group (parish) where the members know and have confidence in each other.

The members of a calase populairie must be honest people and must be mutually acquainted. The mutual acquaintance of members is a requisite for the successful operation and effectiveness of a calase populairie, which could not be organized or function if its members lacked confidence in one another. It is therefore important that the members be mutually acquainted and be honest citizens willing to help one another.

The plan of management of a calase populairie exercised close control over the membership of new members, he ensures that applicants without the required qualifications be kept out. These qualifications are set forth in the following terms in Article V of the Statutes:

"Must be honest, punctual in his payment, of good habits and industrious."

The Calase Populairie Desjardins is based on the mutual confidence of its members and their willingness to help one another in a spirit of social justice.



1 charity. This is possible inasmuch as the members
2 are honest and willing to practice mutual help.
3 After emphasizing the qualifications for membership,
4 Mr. Desjardins (in his pamphlet on the caisse populaire)
5 concludes:

6 "Therefore a caisse populaire is primarily
7 a society of honest people, and in order
8 to leave no room for doubt on this score,
9 activities are restricted to the limits
10 of the parish where the people are mutually
11 acquainted."

12 (b) Limited liability of shareholders

13 The financial liability of the shareholders
14 is limited to their shares in the caisse populaire.
15 Section 3 of the Quebec Co-operative Syndicates Act
16 governing the caisses populaires confirms the fact
17 that the financial responsibility of members is
18 limited to the amount of their respective shares.

19 This section reads as follows:

20 "A shareholder is liable only for the unpaid
21 portion of his subscribed shares".

22 This means that the members of a caisse populaire
23 could, under this section of the act, be called
24 upon to complete payment of the unpaid portion
25 of their subscribed shares if the caisse populaire
26 needed the money to honour its obligations; as the
27 paid up share capital is already invested in the
28 caisse populaire, it goes without saying that the
29 members could not in such a case withdraw it. An
30 example should help clarify the point: assuming that



are honest and willing to practice mutual help.

After emphasizing the qualifications for membership.

Mr. DeLachan (in his remarks on the caisse populaire)

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could, under this section of the act, be called

upon to complete payment of the unpaid portion

of their subscribed shares if the caisse populaire

needed the money to honour its obligations; as the

paid up share capital is already invested in the

caisse populaire, it goes without saying that the

members could not in such a case withdraw it. It

should help clarify the point.



1 a caisse populaire, having sustained heavy losses on
2 its loans, is no longer able to operate and is
3 forced to wind up, and assuming that at some point,
4 it is found that the proceeds of loans and investments
5 will not yield enough money to repay to the depositor
6 members their full savings including share capital,
7 then priority will be given to the repayment of loans
8 if any; deposits will rank second. The balance of
9 the assets realized will be used to repay share capital;
10 if this balance is found inadequate to fully cover
11 the deposits, the members will be asked to complete
12 the payment of their shares in the caisse populaire
13 which are not completely paid up. In other words, the
14 liability of members does not go beyond the amount of
15 their share holdings.

16 (c) Low cost membership share

17 As indicated previously, one of the purposes
18 Mr. Desjardins had in mind in establishing his caisse
19 populaire was to teach and promote the practice of
20 penny savings, to use his own phrase. He wanted the
21 caisse populaire to be a parish school where everyone
22 could learn the value of pennies and acquire a sense of
23 economy and the habit of thrift. So that no one, even
24 the poorest, would be deprived of the benefits to be
25 derived from membership in the caisse populaire, and
26 to make it quite clear that the primary function of
27 the caisse populaire was to promote small savings,
28 he set the cost of shares at a small amount.

29 Article 19 of the Statutes of the caisse
30 populaire sets the value of a membership share at



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forced to wind up, and assuming that at some point,

it is found that the proceeds of loans and investments

will not yield enough money to repay to the depositor

members their full savings including share capital,

then priority will be given to the repayment of loans

if any deposits will rank second. The balance of

if this balance is found inadequate to fully cover

the deposits, the members will be asked to contribute

the payment of their shares in the estate population

which are not completely paid up. In other words, the

liability of members does not go beyond the amount of

(c) Low cost membership share

As indicated previously, one of the purposes

Mr. Desjardins had in mind in establishing his estate

population was to raise and promote the practice of

frugal savings, to use his own phrase. He wanted the

estate population to be a parish school where everyone

could learn the value of pennies and acquire a sense of

economy and the habit of thrift. So that no one, even

the poorest, would be deprived of the benefits to be

derived from membership in the estate population, and

to make it quite clear that the primary function of

the estate population was to promote small savings.



\$5.00, although the Quebec Co-operative Syndicates Act authorizes shares as low as \$1.00. However, to make it even easier for the poorest to join a caisse populaire, the General Statutes (Article 20) of the caisse populaire provide that shares shall be payable at a minimum rate of 10 cents a week per share.

Thus, anyone may, if he so desires, joint a caisse populaire, agree to obey its rules, acquire a share and, by attending this parish school of economy, learn the practice of thrift.

Shares always remain at the original value; they are not shares that vary with the market. Shares in a caisse populaire are the property of the members who may withdraw them.

Endorsing the view of Mr. F. A. Nicholson who directed the study on credit in India at the close of the last century, Mr. Desjardins quoted Mr. Nicholson's statement (see the Appendix to the general statement before the House of Commons Committee (in Ottawa) on the bill respecting co-operative and Industrial Societies Act (1907):

"The society does not consist of a fixed number of transferable shares which may be transferred to and held by any one, but of a congeries of men all personally selected for admission to membership; the holding of a share does not make a man a member as in a joint stock society, but membership gives a right to and requires the holding of a share; the society is an aggregation of members not of shares. "

(d) Free administration

The caisse populaire is an institution for moderate income people. Its operation costs are kept to a strict minimum in order to reduce the cost to its members which it is intended to help. For that reason, the founder of the movement wanted its administration to be provided free of charge. Only the manager (and staff) may receive a remuneration. This excludes the payment of fees for attendance at meetings, as well as commissions to officers; their services must be completely gratuitous. The Quebec Co-operative Syndicates Act governing the caisses populaires provides (Section 23): The services of the members of the boards of management, of the board of supervision and of the committee of credit shall be gratuitous. The manager may be paid for his services.

The economic administration of the caisse populaire is made easier by the fact that its activities are restricted to the parish where people are mutually acquainted. "All transactions of the association which yield profits or benefits shall, being essentially co-operative, be confined to the members. Such transactions according to Section 6 of the Act, shall not be deemed to be the operation of a business, financial establishment, or means of profit."

Membership in a caisse populaire is restricted to the citizens living within its territory, which is usually a parish. And all its transactions which

The cause payable is an institution for moderate income people. The operation costs are kept to a strict minimum in order to reduce the cost to the members which it is intended to help. For that reason, the founder of the movement wanted its administration to be provided free of charge. Only the manager (and staff) may receive a remuneration. This excludes the payment of fees for attendance at meetings, as well as commissions to officers; their services must be completely gratuitous. The Quebec Co-operative Societies Act governing the causes operates provides (Section 23): The services of the members of the board of management, of the board of supervision and of the committee of credit shall be gratuitous. The manager may be paid for his services.

The economic administration of the cause

shall be restricted to the parish where people live. The association which yield profits or benefits shall, being essentially co-operative, be confined to the members. Such transactions according to Section 6 of the Act, shall not be deemed to be the operation of a business, financial establishment or means of profit.

Membership in a cause payable is restricted to the citizens living within its territory, which is usually a parish. And all the transactions which



1 yield profits or benefits, being essentially co-
2 operative, are confined to its members. Only the
3 members may share in the operations of their caisse
4 populaire. Only the members may deposit their
5 savings or take out a loan. The co-operative nature
6 of the operations of the Caisses Populaires Desjardins,
7 which is recognized by legislation, has also been
8 given recognition by the Federal taxation authorities.
9 In 1930, when an amendment to the Income Tax Act was
10 introduced to exempt credit unions from income tax,
11 the Hon. Euler, then Minister of National Revenue
12 declared:

13 "The members of those organizations (the
14 Caisses Populaires Desjardins or credit
15 unions) contribute their money for one
16 purpose only, that those moneys shall
17 again be loaned to the members themselves.

18 It is entirely a co-operative institution."

19 The result is that operation costs are reduced to
20 the very minimum. This is to the benefit of both
21 depositors and borrowers; thanks to this administrative
22 economy, they enjoy more favourable interest
23 conditions.

24 The caisse populaire benefits in another
25 way from the gratuitousness of administrative services.
26 Those who are elected to office in a caisse populaire
27 are not driven by considerations of profit or
28 financial reward. Their willingness to hold office
29 stems from a sense of dedication and social mindedness;
30 the principle of the gratuitousness of services tends

provision. Only the members may deposit their

services or take out a loan. The co-operative nature

of the operations of the British Petroleum Dealers

which is recognized by legislation, has also been

given recognition by the Federal taxation authorities.

In 1930, when an amendment to the Income Tax Act was

introduced to exempt credit unions from income tax,

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"The members of these organizations (the

co-operative organizations) contribute their money for one

purpose only, and that is to

again be loaned to the members themselves.

It is entirely a co-operative institution."

The result is that operation costs are reduced to

the very minimum. This is to the benefit of both

customers and producers; thanks to this administrative

reform, they enjoy more favourable interest

rates.

The co-operative movement is another

way from the establishment of administrative services.

Those who are elected to office in a co-operative

are not driven by considerations of profit or

financial reward. Their willingness to hold office

stems from a sense of dedication and social interest.

The importance of the establishment of services tends



1 to favour the election at the head of a caisse
2 populaire of dedicated and unselfish persons. Being
3 unpaid, whether in the form of attendance fees or
4 otherwise, the directors and credit committee members
5 have no interest in involving the caisse populaire
6 in risky loans or deals; they do not see in their
7 caisse populaire personal financial interests to be
8 protected at all costs.

9 The gratuitousness of services, which calls
10 for unselfishness and social mindedness, is a
11 guarantee of sound administration and security
12 for the caisse populaire.

13 (e) Setting up of an indivisible financial reserve

14 From a portion of its annual net surpluses,
15 the caisse populaire accumulates a financial reserve
16 to protect itself against possible losses and to gain
17 strength so as to render greater services to its
18 members.

19 Such reserves belong to the caisse populaire
20 in its own right and can never be distributed to the
21 members. Should the caisse populaire be wound up,
22 the balance of its realized assets, including of course
23 the reserves which belong to it in its own right, is
24 distributed or applied, within the territory of the
25 caisse populaire, to one or more works of general
26 public utility designated by the Lieutenant-Governor
27 in Council. Such a provision precludes any temptation,
28 on the part of the shareholders, to distribute to
29 themselves the reserves of their caisse populaire.
30 Such reserves contribute to the depositor members'



populations of dedicated and unselfish persons. Being

united whether in the form of a community or

have no interest in involving the entire population

in risky loans or deals; they do not see in

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The great advantage of services, which calls

for unselfishness and social-mindedness, is a

guarantee of sound administration and security

for the entire population.

(a) Setting up of an indivisible financial reserve

From a portion of the annual net surplus,

the entire population accumulates a financial reserve

to protect itself against possible losses and to gain

strength so as to render greater services to the

Such reserves belong to the entire population

in its own right and can never be distributed to the

members. Should the entire population be wound up,

the balance of the reserved assets, including of course

the reserves which belong to it in its own right, is

distributed on equality, within the territory of the

entire population to one of more works of general

on the part of the shareholders, to distribute to

themselves the reserves of their entire population.

Such reserves contribute to the economic



1 confidence in their caisse populaire, by protecting their
2 savings against possible losses.

3 The members thus benefit from the payment of
4 part of the net operational surpluses of their
5 caisse populaire into an indivisible financial
6 reserve, while the reserve fund is the property
7 of the caisse populaire and may not be divided, this
8 does not make it unproductive. It yields interest
9 which enable the caisse populaire to improve interest
10 rates on savings and to reduce the rates on loans.
11 Such a common fund (which is gradually built up
12 through administrative economies resulting from the
13 use of unpaid officers and from the simple and
14 economical system of restricting operations to
15 members living within the parish) works to the
16 benefit of all members, both depositors and borrowers
17 alike.

18 Section 39 of the Quebec Co-operative
19 Syndicates Act requires the caisse populaire to
20 apply to reserves at least 10 per cent of their
21 annual net surpluses. The General Statutes of the
22 Caisses Populaires Desjardins are more demanding.
23 They provide for the payment of 20 per cent of annual
24 net surpluses into the reserve fund, and of 10 per
25 cent into the contingency fund. The various
26 affiliated Caisses Populaires Desjardins annually apply
27 at least 30 per cent of net surpluses to reserves.

28 Mr. Desjardins viewed the reserves as a
29 protection for the share capital and savings against
30 possible losses, as well as a source of credit enabling



confidence in their sales population, by protecting their

The members thus benefit from the payment of

part of the net operational surpluses of their

reserve, while the reserve fund is the property

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which enable the sales population to improve interest

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use of unpaid officers and from the simple and

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1 the caisses populaires to be of greater service to
2 their members by granting them loans more in keeping
3 with their needs at more favourable terms.

4 (f) Loans granted to members only

5 The Quebec Co-operative Syndicates Act
6 governing the caisses populaires requires the latter
7 to grant loans only to their own members. Section,
8 paragraph 2, provides as follows: Transactions
9 of the association which yield profits or benefits,
10 shall, being essentially co-operative, be confined
11 to the members. Confining loans to the members
12 contribute to the security and efficiency of the
13 caisses populaires. To maintain a balance between
14 its two services, savings and loans, and to enable
15 the caisse populaire to fulfil its true function, it
16 is important that both borrowers and depositors be
17 members, that is to say, that the caisse populaire
18 grant loans only to its members. Otherwise, the
19 depositor members might eventually influence the policies
20 of the caisse populaire to the disadvantage of the
21 borrowers, who might have to pay somewhat excessive
22 credit terms; not being members, they could not,
23 through their vote, call for remedial action or for
24 a more favourable treatment.

25 Here is a statement on the subject by Mr.
26 Alphonse Desjardins before the special committee
27 of the House of Commons on the bill concerning co-
28 operative and industrial societies (1907):

29 "In the first place, only the shareholders
30 will have a right to borrow from the association,



...classes population to be of greater service to
...by giving them loans more in keeping
...needs at a reasonable terms.

(1) Loan Limitation

The United Co-operative Syndicates Act

paragraph 2, provides as follows: Transactions
of the association which yield profits or benefits,
shall, being essentially co-operative, be confined
to the members. Lending loans to the members
contribute to the security and efficiency of the
co-operative population. To maintain a balance between
its two services, savings and loans, and to enable
the co-operative population to fulfill its true function, it
is important that both borrowers and depositors be
members, that is to say, that the co-operative
population loans only to its members. Otherwise, the

depositor members might eventually influence the policies
of the co-operative population to the disadvantage of the
borrowers, who might have to pay somewhat excessive
credit terms, not being members, they could not
through their vote, call for remedial action or for
a more favorable treatment.

Here is a statement on the subject by Mr.
Alphonse Desjardins before the special committee
of the House of Commons on the bill concerning co-
operative and industrial societies (1937):

The co-operative movement, which has flourished
will have a great future in the Dominion.



"and it must not be forgotten that the members are selected and accepted after an investigation conducted by a control board representing the association, something which provides an additional safeguard."

In his book on "Co-operative Credit Banks", Mr. Wolff right emphasizes this point:

"The first safeguard relied upon is the election of the person to whom the loan is made, as a trustworthy, respectable, presumable honest and honourable person. Lending to non-members would be altogether contrary to the principle of the bank." (Co-operative Credit Banks, p. 28)

(g) The Loan Policy

In view of the founder of the caisses populaires, savings should precede and in a sense justify credit. Any co-operative is based on the personal efforts of its members and on their mutual help. In the caisses populaires, savings reflect the personal efforts of the co-operators while the money they loan from their collective savings reflect their mutual help. Members make an effort to save in order to deserve credit. It is in that sense that in a caisse populaire, saving precede credit and at the same time provide it.

Savings justify credit. It is a matter of common experience that the thrifty usually make proper use of credit. Through the systematic practice of thrift, they develop a sense of economy, measure and



...the ...
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In his book on "Co-operative ..."
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(2) The Loan Policy

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common experience that the family usually makes proper
use of credit. Through the systematic practice of
savings, they are able to secure a sense of security.



1 order, qualities which will all help them make use
2 wisely of credit.

3 The Hon. F.A. Nicholson, who directed a
4 committee appointed by the government of India to
5 investigate rural co-operative banks abroad with
6 a view to their establishment in India, stressed this
7 fact as follows in his report:

8 "Credit, to be safe and sanative, must be
9 preceded by thrift; not merely in the sense that
10 the capital to be lent first must be saved,
11 but that it is the man who saves who is
12 the man that ought to get and can use credit."
13 This explains why only the members are allowed to
14 deposit with or borrow from their caisse populaire.
15 They pool their savings for the purpose of loaning
16 the money to those among them who need it. All
17 may need a loan at some time. They build up their
18 credit on mutualized savings, and help each other
19 by means of loans.

20 The single principle or golden rule
21 governing the loan policies of a caisse populaire is
22 that of mutual service between the members. The
23 caisses populaires Desjardins must help their members
24 through productive or beneficial loans. The credit
25 committee must satisfy itself that the requested
26 loan would improve the borrower's situation. In
27 his brief to the House of Commons committee on the
28 bill concerning co-operative societies, in 1907,
29 Mr. Desjardins wrote that the caisse populaire must
30



The Hon. R.A. Nicholson, who directed a

committee appointed by the Government of India to

investigate the financial position of the

view to their establishment in India, expressed this

view as follows:

"Credit, to be safe and tentative, must be

preceded by thrift; and merely in the sense that

the capital to be lent first must be saved,

but that it is the man who saves who is

the man that ought to get and use credit."

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The simple principle of golden rule

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bill concerning co-operative societies, in 1907,

Mr. Nicholson wrote that the co-operative societies



1 "..help its members by a wise use of credit
2 for production or obtain a saving on an
3 expense that would be higher if money could
4 not be had at the proper time. It is not
5 mere credit for the sake of the benefit to
6 be derived by the lender that is granted,
7 as banks do, for instance, provided the
8 security is good, but it is one of a parti-
9 cular kind, the really productive credit
10 that is looked for and satisfied."

11 The statutes of the Caisse Populaire Desjardins
12 place a strict obligation on the credit committee
13 to allow only useful or advantageous loans to the
14 members. According to the chapter dealing with the
15 credit committee, section 66, paragraph 5 of the
16 General Statutes of the Caisses Populaires Desjardins:

17 "It must know exactly what the borrower
18 intends to do with the money requested, and
19 must refuse any loan that is to be used for
20 a frivolous, extravagant or unproductive
21 purpose, or even for a purpose that is harm-
22 ful or dangerous to the true interests of
23 the borrower, due to his inexperience or for
24 some other reason."

25 The caisses populaires, whose sole object is to help
26 their own members cannot and must not grant loans
27 unless they are productive or beneficial to the
28 borrowers; loans which, according to the very phrase
29 of the founder, are intended to "help them, make
30 them more prosperous".



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To make the point clearer, Mr. Desjardins, in his brief to the House of Commons committee in 1907, also quoted a few excerpts from the report of the Hon. F. A. Nicholson, who at the close of the last century investigated credit co-operatives in Europe as a preliminary to introducing co-operative credit in India. On the use of credit, the Hon. Nicholson had this to say:

" It is not merely cheap and facile credit that is needed; it is not money lent on easy terms without regard to the use made of the money; it is guarded, guided and productive credit that is the necessity of the times; the form which organized credit must take must in itself be a safeguard, a guide and a restraint, so that credit may be used not for mere extravagance or without intelligent foresight, but only in such a manner as will be conducive to prosperity and production."

The value of credit depends not on the goods it provides but rather on the use to be made of the things thus provided. Goods that are consumed on a farm obviously are destroyed; but such consumption is directed to productive or advantageous ends, namely to make the farm more prosperous. Granting loans only for the purpose of improving the situation of their borrower members, a *caisse populaire* must consider every loan application and satisfy itself that it will be used to advantage.



Mr. [Name] [Title] [Address]

in his brief to the House of Commons committee in 1907, also noted a few examples from the reports of the Hon. F. A. Nicholson, who at the close of the last century investigated credit co-operatives in Europe as a preliminary to introducing co-operatives in India. Of the use of credit, the Hon. Nicholson had this to say:

It is not merely loans and facilities credit that is needed; it is not merely loans on easy terms without regard to the use made of the money; it is needed, unless and productive credit, that is the necessity of the times; the loans must be organized credit must take root in itself, be a self-sustaining, a guide and a restraint, so that credit may be used not for mere extravagance or without intelligent foresight, but only in such a manner as will be conducive to prosperity and production."

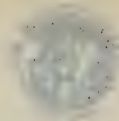
The value of credit is not to be made good is provided but rather on the use to be made of the credit thus provided. The credit is not to be used on a farm or in a shop and to be used in connection with production or advantageous investment is to make the loan more productive, namely to make the loan more productive. Granting loans only for the purpose of increasing the production of their own country, a nation's economic must consider every loan productive and satisfy itself that it will be used to advantage.



1 The prospective borrower must therefore candidly
2 disclose his purpose in seeking a loan. In his
3 brief to the House of Commons committee on the bill
4 concerning co-operative societies (1907) Mr.
5 Desjardins had this to say on the subject:

6 "But what is of paramount importance both
7 tro the borrower and to the society, and is
8 a serious element of surety for the punctual
9 repayment of the loan, as evidenced by an
10 experience extending in Europe over half
11 a century with uniform good results, is the
12 obligation on the part of the borrowing
13 member to state clearly the purpose for
14 which he asks for a loan. The by-law re-
15 quires that he shall do so, and if he does not
16 comply with this rule the loan is
17 invariably refused, however good may be the
18 surety offered. This is a valuable safeguard
19 for the association."

20 The members of the credit committee must determine
21 whether the borrower member, if granted a loan, would
22 be likely to make a profit, improve his financial
23 position and repay his loan. In his brief,
24 Mr. Desjardins quotes a most significant excerpt
25 from Henry Wolff's book on co-operative credit banks.
26 It provides such a good account of the benefits
27 derived from the sound use of credit and from its
28 close control by the credit committee that we
29 cannot resist the temptation of quoting it at length:
30



the following is a summary of the
discussion of the subject of the bill

brief to the House of Commons committee on the bill

Debatable and this is the subject

"But what is of permanent importance with

the one borrower and to the society, and as

a serious element of worry for the borrower

recovery of the loan, as evidenced by an

experience extending in Europe over half

a century with uniform good results, is the

obligation on the part of the borrower

member to state clearly the purpose for

which he asks for a loan. The answer re-

quires that he shall do so, and if he does not

comply with this rule the loan is

unavoidably refused, however good may be the

purpose offered. This is a valuable safeguard

for the association."

The members of the credit committee were desirous

whether the borrower member, if granted a loan, would

be likely to make a profit, improve his financial

position and repay his loan. In his reply,

Mr. Hargrave quotes a most significant passage

from Henry Hall's book on co-operative credit works.

It provides such a good account of the benefits

derived from the sound use of credit and from the

close control by the credit committee that we

cannot resist the temptation of quoting it at length:



1 "The member is presumably honest. But does
2 his intended outlay promise a return --
3 will it repay itself? And is it legitimate
4 in his particular case?

5 These questions are very searchingly
6 considered and according to the judgment
7 passed in committee, under a sense of responsi-
8 bility kept carefully alive, is the answer
9 given. The committee are in respect of this
10 matter strictly bound, not only by rules,
11 and by their liability engaged, but, in addi-
12 tion to this, by the acknowledgement that all
13 that they do will be from time to time
14 inquired into very carefully by an independent
15 controlling body above them, which, in the
16 interest of the bank, will not allow them
17 to 'stretch a point'. There is no difficulty
18 made, if the case should be thought to warrant
19 it, on the score of amount or of time. A
20 loan, to be a real help, must be adequate
21 to its purpose. And it must also be granted
22 for a sufficient length of time to make it
23 practicable for it to repay itself out of its
24 own production -- or else the borrower will
25 find himself hampered rather than helped, driven
26 to taxing other sources of income in order to
27 repay. But the object must be sound, and
28 it must be legitimate. It may be to enable the
29 borrower to procure for himself materials for
30 his trade. It may be to enable him to tide

a member is permanently present. His fees

his intended duties become a burden --

will it really benefit him in its legislative

in his particular case?

These questions are very seriously

considered and answered to the judgment

passed in committee, under a sense of responsi-

bility kept carefully alive, as the answer

given. The committee are in receipt of this

matter constantly, and not only by letters,

and by their liability answered, but, in addi-

tion to this, by the acknowledgment that all

that they do will be known some time

to be a very serious one in consequence

concerning body above them, which, in the

interest of the body, will not allow them

to stretch a point. There is no difficulty

made, if the case should be brought to court

it, on one side of a number of cases. A

fact, to be a real help, must be adequate

to the purpose. And it must also be proved

for a sufficient length of time to make it

practicable for it to repay itself out of its

own production -- in other words, the borrower will

find himself hampered rather than helped, driven

to taking other sources of income in order to

repay. But the point must be sound, and

it must be legitimate. It may be to enable the

to pay the interest on the loan of the

to pay the interest on the loan of the



1 "a slack time or avoid a loss by selling
2 commodities below their proper value. It
3 may be to assist him in doing more ample
4 justice to his opportunities, in trade,
5 on his farm or in his domestic economy.
6 He may want to drain a field, to sink a well,
7 to buy a cow or a pig, to build a shed or
8 a house, or to make a road. It may be to
9 enable him to purchase for cash at a con-
10 siderable economy goods which he wants and
11 ~~for~~ which otherwise he would be made to
12 pay 'though the nose'. It may be to get
13 him out of a usurer's clutches. Many and
14 many a loan has been granted for this purpose,
15 with the very happiest results, to poor
16 wretches who, almost ruined by usury, had
17 scarcely a shred of solvency left. But all
18 this has to be inquired into carefully by
19 men who know the applicant, know his cir-
20 cumstances who can watch him, verify facts,
21 and who have a strong personal interest in
22 not exposing themselves to loss."

23 The proper use of credit calls for moral
24 and professional qualifications on the part of the
25 borrower. To get a loan from his caisse populaire,
26 a member must satisfy certain requirements which
27 obviously will commend themselves to the credit
28 committee. He must be a good member, that is to
29 say "honest, punctual in his payments, sober and
30 industrious" (Article 7 of the statutes).



justice to his competitors, in trade,
on his farm or in his domestic economy.
He may want to obtain a title, to claim a well,
to pay a son or a wife to build a shed or
a house, or to make a road. It may be to
enable him to purchase for cash at a low
price, or to obtain goods which he cannot
otherwise obtain. He would be glad to
pay through the bank. It may be to get
him out of a woman's clutches. Many and
many a loan has been granted for this purpose,
with the very happiest results, the poor
wretched who, almost ruined by want, had
scarcely a shred of solvency left. But all
this has to be judged into carefully by
men who know the applicant, know the cir-
cumstances who can watch him, verify facts,
and who have a strong personal interest in
not exposing themselves to loss.

The proper use of credit is for moral
and professional qualifications on the part of the
borrower. To get a loan from his honest reputation,
a man must surely have a reputation which
will command respect to the credit
committee. He must be a good man, that is to
say "honest," popular in his relations, able and
industrious." (Article V of the constitution)



1 In considering a loan application, the
2 credit committee first considers the moral sureties
3 of the borrower, then his financial standing.
4 Honesty is the greatest asset and is given primary
5 consideration. To quote the phrase of Luzzati, the
6 founder of popular banks in Italy, credit co-operatives
7 are "the capitalization of honesty". That is the
8 very basis of their credit policy. The caisse populaire
9 gives primary consideration to moral character and
10 to the professional qualifications of the borrower,
11 then it looks at the borrower's financial position.
12 It assures itself that the loan would be used for
13 a productive purpose and will be repaid on the terms
14 suggested by the borrower and found acceptable by the
15 credit committee.

16 Article 66 of the statutes of the caisse
17 populaire provides that "the committee on credit
18 shall examine all applications for credit, ascertain
19 the solvency of the applicant as well as the
20 moral and material guarantees offered." This article
21 of the constitution of our credit unions clearly
22 repudiates any list setting out in advance what
23 the caisse populaire may loan to each of its members.
24 The credit committee adjudicates every loan after
25 considering the moral and physical securities offered
26 by the borrower, and approves the loan only when it
27 is morally satisfied that the borrower will use it
28 to advantage and will repay it.

29 7. ADMINISTRATIVE BODIES

30 (a) The general meeting of shareholders

The caisses populaires are administered,

THE NATIONAL CREDIT COUNCIL

credit committee first considers the moral character of the borrower, then his financial standing. Honesty is the greatest asset and is given primary consideration. To quote the phrase of Marshall, the founder of popular banks in Italy, credit co-operatives are "the capitalization of honesty". That is the very basis of their credit policy. The entire population gives primary consideration to moral character and to the professional qualifications of the borrower, then it looks at the borrower's financial position. It assumes itself that the loan will be used for a productive purpose and will be repaid on the terms suggested by the borrower and found acceptable by the credit committee.

Article 66 of the statutes of the credit cooperative provides that "the committee on credit shall examine all applications for credit, ascertain the solvency of the applicant as well as the moral and material soundness offered." This article of the constitution of our credit unions clearly indicates any first meeting one in advance and the credit committee may have to call on its members. The credit committee is organized every year after considering the moral and physical securities offered by the borrower, and approves the loan only when it



1 managed and controlled by their shareholders, who
2 are at once their owners, users and beneficiaries.
3 Being co-operative in form, they are democratic both
4 in their organization and in their operations.
5 The shareholders, who are the joint owners, have
6 the rights and duties inherent in ownership.
7 The greatest responsibility of the caisse populaire
8 rests with the general meeting of shareholders.
9 It follows that the first and foremost administrative
10 body is the general meeting of shareholders.

11 The rights and duties vested in the other
12 administrative bodies of the caisse populaire,
13 namely the board of management, credit committee
14 and board of supervision, are rights and duties
15 resting primarily with the general meeting of share-
16 holders. As it is impossible for the general
17 meeting of shareholders to directly assume the
18 management of the caisse populaire, and as the
19 same persons could not discharge all the administrative,
20 managerial and supervisory duties, the general meeting
21 of shareholders delegates some of its powers to
22 various administrative bodies.

23 The Quebec Co-operative Syndicates Act
24 provides for the appointment by the general meeting
25 of shareholders, of three administrative bodies:

- 26 (1) The board of management, which is responsible
27 for general administrative matters;
- 28 (2) The credit committee, which has the very
29 special administrative responsibility of studying
30 the loan applications filed by members, allowing

remained and controlled by their shareholders, who
are all small investors, and are not interested
being co-operative in form, they are interested in
in their organization and in their operations.
The shareholders, who are the joint owners, have
the rights and duties which are inherent in ownership.
The greatest responsibility in the case of corporations
rests with the general meeting of shareholders.

THE RIGHTS AND DUTIES OF SHAREHOLDERS

The rights and duties which are inherent in the case
of shareholders of the various corporations,
namely the board of management, credit committee
and board of supervision, are rights and duties
resting primarily with the general meeting of share-
holders. As it is impossible for the general
meeting of shareholders to directly assume the
management of the various corporations, so as the
same persons could not discharge all the administrative
duties and supervisory duties, the general meeting
of shareholders delegates some of its powers to
the various committees.

- The various committees which are provided for the administration of the general meeting
of shareholders, of which committees are:
(1) The board of management, which is responsible
(2) The credit committee, which has the duty
of special administrative responsibility of supervising
the financial position of the company, allowing



1 or rejecting them and seeing that the loans are
2 regularly reimbursed;

3 (3) The board of supervision, which sees that
4 the board of directors and credit commission
5 faithfully discharge their duties.

6 The legal organization of the Caisse
7 Populaire Desjardins is in line with its governing
8 principles and goals. It is simple but adequate to
9 ensure full operational efficiency and sound adminis-
10 tration.

11 The general meeting is opened to every
12 shareholder, but under the Act, no particular
13 number of members is required to form a quorum. This
14 is provided in the following terms in Section 25
15 of the Quebec Co-operative Syndicates Act which
16 governs the caisses populaires:

17 "No particular number of associates shall be
18 required to form a quorum at a general meeting.

19 No shareholder may vote by proxy except the
20 societies or public bodies that hold shares,
21 each of which shall have one vote only. Each
22 shareholder shall have one vote only, whatever
23 may be the number of his shares."

24 The Act strictly forbids individual shareholders to
25 vote by proxy. Only societies or corporations
26 holding shares "may be represented and vote through
27 a delegate". (Section 25 of the Act).

28 (b) The board of management

29 The general meeting of shareholders elects
30 the members of the board of management (directors)



the board of directors and credit committee

The general organization of the business

Regulatory provisions as to the manner of the governing

The general meeting is convened to every

shareholder, but under the Act, no particular

number of members is required to form a quorum. This

is provided in the following terms in Section 27

of the Quebec Co-operative Syndicates Act which

governs the various regulations:

"No particular number of shareholders shall be

required to form a quorum at a general meeting.

No shareholder may vote by proxy except the

holder of a public debt or public debt security.

Each of which shall have the vote only. Each

shareholder shall have one vote only, and no

may be the number of the shares.

The Act expressly forbids substantial shareholders to

vote by proxy. Only registered or non-registered

holders share "may be represented and vote through

a delegate". (Section 26 of the Act).

(b) The general meeting shall

The general meeting of shareholders shall



1 from among the membership (Section 17 of the Act)
2 for a three-year term. One-third of them are re-
3 placed every year. Directors whose terms have
4 expired may be re-elected. At the first meeting
5 following the general meeting of shareholders, the
6 directors appoint from their own membership, a
7 president, a vice-president, a secretary and a
8 manager. However, the office of manager may be
9 held by the president, vice-president, or secretary.
10 The president, vice-president, and secretary of
11 the board of management are at the same time
12 president, vice-president and secretary of the
13 caisse populaire. The mode of election and duties
14 of officers are governed by the Act.

15 The board of management administers the
16 caisse populaire and is responsible for its proper
17 management. It generally directs the operations,
18 sees that the decisions of the general meeting of
19 shareholders are carried out; that the statutes
20 and by-laws of the Caisse Populaire are faithfully
21 applied; and invests in sound bond issue to ensure
22 the best possible use of that portion of savings,
23 which, for reasons of administrative security,
24 cannot be tied up for any great length of time in
25 loans, in view of the possibility of withdrawals.
26 It is also responsible for preparing the annual report
27 on the operations of the caisse populaire, to be
28 submitted to the general meeting of shareholders; for
29 calling the general meeting of shareholders; for
30



...and
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placed every year.

expired may be

holding the general meeting of shareholders, the

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held by the president, vice-president, or secretary.

The president, vice-president, and secretary of

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... ..

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The board of management

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... ..

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the best possible use of their position of

which, for reasons of administrative economy,

cannot be tied up for any great length of time in

... ..

It is also responsible for

on the operations of the

submitted to the general meeting of shareholders; for

calling and convening meetings of shareholders; for



filling such vacancies as may from time to time arise within either of the three governing bodies of the caisse populaire; for ensuring that the caisse populaire will do the utmost to discharge its duties within the parish and pursue the economic, social and moral goals for which it was founded.

(c) The Credit Committee

Section 22 of the Quebec Co-operative Syndicates Act provides for the appointment by the general meeting of shareholders of a credit committee of at least three members. With the exception of the president of the caisse populaire, if the by-laws permit, no member of the credit committee may be a member of the board of management or board of supervision. The annual general meeting of shareholders therefore elects the members of the credit committee from among the shareholders by a simple majority vote. Under the statutes of the caisse populaire, they are appointed for a three-year term and one-third of them are replaced each year. They may be re-elected at the expiry of their term of office.

Members of the credit committee may neither directly nor indirectly borrow from the caisse populaire, nor become security for another borrower, under the very terms of Section 22 of the Quebec Co-operative Syndicates Act.

The manager of the caisse populaire is ex officio secretary of the credit committee. He must keep a register in which the decisions of the credit



committee are recorded. The minutes of all meetings of the credit committee must be signed by the members of the committee in attendance and by the manager who acts as secretary.

At least two members of the credit committee (one-half plus one) must be present at a meeting for its decisions to be valid. No decision on an application for a loan is valid unless it receives the unanimous support of the members present.

The credit committee has a very special task. It studies loan applications from the members, accepting or rejecting them, and sees that loans are repaid. It should be noted that in this matter, the credit committee performs an administrative function. It may not override the decisions of the board of management, which is responsible for ensuring the financial security of the caisse populaire. Thus the board of management may from time to time determine by way of a resolution the amount which the credit committee shall be authorized to loan to the shareholders within a given period of time from accumulated savings; the credit committee must remain within the limit established by the board of management and co-operate with the board, which is responsible for the proper management of the caisse populaire and for the financial security of the savings in its custody. The credit committee examines every application for a loan, verifies the financial position of the applicant, assesses his moral worth, satisfies itself



minutes of all meetings

of the credit committee must be signed by the members of the committee in attendance and by the manager who acts as secretary.

At least two members of the credit committee

(one-half time one) must be present at a meeting for its decisions to be valid. No decision on an application for a loan is valid unless it receives the unanimous support of the members present.

The credit committee has a very special

task. It studies loan applications from the members, according to existing laws and uses that loans are repaid. It should be noted that in this matter, the credit committee performs an administrative function. It may not override the decisions of the board of management, which is responsible

for the management of the company.

population. When the board of management may from time to time determine by way of a resolution the amount which the credit committee shall be authorized to loan to the shareholders within a given period of time from accumulated savings; the

credit committee may within its limits

established by the board of management and co-operate with the board, which is responsible for the proper management of the entire population and for the financial security of the system in its entirety.

The credit committee examines every application for a loan, verifies the financial position of the



1 that the loan is to be used for a proper purpose and
2 decides to the best of its ability whether the loan
3 shall be granted or denied and in the former case, on
4 what terms.

5 (d) The board of supervision

6 To ensure that the board of management and
7 the credit committee will properly discharge their
8 responsibilities at all times and that the ~~caisse~~
9 populaire will thus be faithful to its goals, the
10 general meeting of shareholders also elects a board
11 of supervision whose purpose is to represent the
12 general meeting alongside the board of management
13 and credit committee in the course of the operations
14 of the caisse populaire. The board of supervision
15 is, in a sense, a permanent general meeting of
16 shareholders. The general meeting of shareholders
17 cannot be sitting constantly, or meeting from time
18 to time in the premises of the caisse populaire to
19 supervise its operations and see how the members
20 of the board and members of the credit committee
21 are discharging their duties. It therefore delegates
22 this necessary task of supervision and control to a
23 few persons qualified to act in its name and
24 appointed from amongst the membership. The rights
25 and powers of such a supervisory board are therefore
26 primarily vested in the general meeting shareholders,
27 and are exercised for and on behalf of the shareholders.
28 It is a right and duty for co-operators to know what
29 their caisse populaire is and does; being its founders,
30 promoters and masters, they must maintain it so that



1 it will work in their general interest. This
2 principle of democratic control by the shareholders
3 is applied in several ways in the Quebec Co-operative
4 Syndicates Act, which provides:

5 (1) (Section 25) that "each shareholder shall
6 have one vote only, whatever may be the
7 number of his shares";

8 (2) (Section 20) that "the general meeting of share-
9 holders shall appoint from among its members
10 a board of supervision of three members";

11 (3) finally, (Section 27) that "the general meeting
12 (of shareholders) shall be held each year,
13 within the sixty days following the close of
14 the fiscal term, to take cognizance of the
15 annual report for the previous term and to
16 consider generally the business of the
17 association".

18 Section 21 of the Quebec Co-operative
19 Syndicates Act defines the functions of the board
20 of supervision as follows:

21 "The Board of supervision shall exercise
22 supervision over the board of management
23 and the committee of credit as to all the
24 details of their management. It may, at any
25 time, inspect all documents and the keeping
26 of the books, and require the production
27 of the cash on hand. The board of super-
28 vision of every co-operative syndicate for
29 credit, provident or other economical purposes
30 shall, at least once a year, cause all the



It will be the duty of the Board to

maintain the records of the Association

in relation to the affairs of the Association

and to report thereon to the Association

(1) (Section 2) That "such association shall

have one vote only, whatever may be the

number of its members"

(2) (Section 3) That "the association shall

hold its annual meeting among its members

a board of supervision of these members"

(3) (Section 4) That "the association shall

(the association) shall be held to

within the sixty days following the close of

the fiscal year of the Association

annual report for the previous term and to

consider generally the business of the

Association."

Section 51 of the Quebec Co-operative

Statutes Act defines the functions of the board

of supervision as follows:

"The board of supervision shall exercise

supervision over the board of management

and the committee of audit and all the

details of their management. It may, at any

time, inspect all documents and the keeping

of the books, and require the production

of the same on demand. It may also require

vision of every co-operative enterprise for

credit, production of other financial returns

and to report thereon to the Association



"operations of the association to be audited by an inspector of a federation organized under Section 49".

The Quebec Federation des Unions regionales des Caisses populaires Desjardins sees that every caisse populaire has the benefit of at least one complete annual inspection carried out by one of its official inspectors. It also sees that the inspection report is studied by the officers of the caisse populaire and that its recommendations are acted upon.

Section 71 of the statutes of the caisse populaire goes into greater detail as to the duties of the board of supervision:

" The members of this council shall watch over all the operation of the association; frequently check the cash, the investments and securities; see to the carrying out of the by-laws, regulations and decisions of the general meeting. They shall check every decision of the committee of credit especially as regards loans and renewals. They shall ascertain the true value of the securities in hand and, in a word, take cognizance of all the documents they deem useful for the performance of their duties. The board of supervision is bound to call an emergency general meeting of the shareholders if they find anything serious in connection with the management of the association's affairs or any



Section 10. The Board of Directors shall consist of ten members.

of the members of the Association shall be elected.

under Section 10.

The Board of Directors for the Association shall be elected.

Section 11. The Board of Directors shall have the authority to

appoint and remove the officers and directors of the Association.

annual inspection carried out by one of its

official inspectors. It also sees that the inspection

then report is submitted by the officers of the

Association and that the recommendations are

acted upon.

Section 12. The duties of the Board of Directors

shall be to see that the Association is properly managed

and that the interests of the members are protected.

The members of the Board shall be elected for

over all the operations of the Association;

they shall check the cash, the investments

and securities; see to the carrying out of

the by-laws, regulate and determine of

the general meeting. They shall also ensure

that the Association is properly managed and

that the interests of the members are protected.

They shall also ensure that the Association is properly

managed and that the interests of the members are protected.

They shall also ensure that the Association is properly

managed and that the interests of the members are protected.

They shall also ensure that the Association is properly

managed and that the interests of the members are protected.

They shall also ensure that the Association is properly

managed and that the interests of the members are protected.



"violation of the statutory provisions relating to the administration of the moneys paid into the caisse or of the securities exacted for the repayment of loans. They may, in the event of emergency or of extraordinary cases, suspend employee and members of the committee of credit, but shall at once report their reasons to a general meeting of the shareholders who shall decide on the same.

They shall, when the case is not of sufficient importance to necessitate the calling of a general meeting of the shareholders, report their observations in writing to the board of management. The latter shall be bound to act accordingly and, if necessary, to remedy the state of affairs pointed out so as to remove all subjects of complaint. Should the council of administration not act, refuse to take up the matter, or neglect to take the proper steps to remedy the state of affairs pointed out, whereof the committee of supervision are constituted judges, they may bring the matter before the next ordinary or special general meeting that may be held."

8. ORGANIZATIONAL STRUCTURE OF THE CAISSES POPULAIRES
DESJARDINS MOVEMENT

The Caisses Populaires Desjardins movement in Quebec is organized on three different levels:

- (1) the caisses populaires;
- (2) the regional unions;

3. ORGANIZATIONAL STRUCTURE OF THE CHINESE POPULATION

THE MOVEMENT

in question is regarded on three different levels:

(1) The Chinese population;

(2) The Chinese I nations;

general meeting that may be held."

the matter before the next ordinary or special

viewed were constituted judges they may bring

collected out whereof the committee of experts

the proper steps to remedy the state of affairs

refuse to take up the matter, or neglect to take

Should the council of administration not act,

as to remove all subjects of complaint.

to remedy the state of affairs pointed out so

be bound to act accordingly and, if necessary,

holders report their observations in writing

calling of a general meeting of the same

sufficient importance to necessitate the

They shall, when the case is not of

holders who shall decide on the same,

persons to a general meeting of the same

of credits, but shall at once report their

expand employees and members of the committee

of emergency or of extraordinary cases,

repayment of loans. They may, in the event

the cause of the securities created for the

to the administration of the same with view



(3) the provincial federation of the Unions regionales des Caisses Populaires de Quebec.

(A) The regional unions

1. Definition

The Caisses Populaires Desjardins are associated on a regional basis to promote and protect their common interests. This association on a regional level is the regional union. It is the second floor of the co-operative savings and credit building. The caisses populaires of the province of Quebec have set up ten regional unions.

1237 Caisses Populaires Desjardins are affiliated to the ten regional unions.

The regional unions are at the service of the affiliated caisses populaires. They are responsible for promoting and protecting the savings of the caisses populaires while at the same time consolidating the savings of the caisses populaires while at the same time consolidating the savings of the caisses populaires while at the same time consolidating the movement and making it more effective.

2. Territory of jurisdiction

As a general rule, the regional unions have adopted the same territorial limits as the diocese. Exceptions are made for the regional unions of Trois-Rivieres, Quebec and Montreal, as described elsewhere.

3. Annual contribution

All of these professional and technical services are financed exclusively from the annual



The Chinese Population Commission was

associated on a regional basis to handle and protect

their common interests. This association on a

regional level is the main reason for the Chinese

floor of the co-operative savings and credit building.

The Chinese population of the provinces of Quebec

have set up ten regional unions.

They are: Quebec, Ontario, New Brunswick,

Atlantic, and the two regional unions.

The regional unions are at the service

of the affiliated Chinese population. They are

responsible for the financial and technical assistance

of the Chinese population while at the same time

consolidating the savings of the Chinese population

while at the same time consolidating the savings of

the Chinese population while at the same time

consolidating the savings of the Chinese population

2. Technical Assistance

As a general rule, the regional unions have

obtained the same financial limits for the Chinese

Expenditures are made for the regional unions of

Protein-Hydrogen, Oxygen and Nitrogen, as mentioned

elsewhere.

3. Financial Assistance

All of these expenditures are technical

assistance for the Chinese population.



contributions of the caisses populaires and from a very small subsidy paid by the provincial government.

The annual contribution of each caisse populaire affiliated to a regional union is a double one:

1 - A charge of $1/10$ of 1% on the assets as at December 31;

2 - A further charge of 2% of gross profits for every financial year.

Example:

	<u>$1/10$ of 1%</u>	<u>2% of profits</u>	<u>Total</u>
Caisse populaire with assets of \$10,000.	\$ 10.00	\$ 6.50 (approx.)	\$ 16.50
Caisse populaire with assets of \$10,000,000.	\$10,000.00	\$6,500.00	\$16,500.00

The regional union divides this contribution as follows:

1. The first 10 per cent goes into the Security Fund administered by the Federation.
2. The remainder, namely 90 per cent, is divided on the basis of 60 per cent to the Federation des Caisses populaires and 40 per cent retained by the regional union.

In short, on every contribution dollar paid by a caisse populaire, \$0.10 goes into the Security Fund, \$0.36 to the regional union and \$0.54 to the Federation des Caisses populaires.

Only the Montreal regional union has a different contribution basis. It charges its caisses populaires $1/6$ of one per cent of assets



The Bureau of Land Management is a part of the Department of the Interior. It is responsible for the management of the public lands of the United States. The Bureau is organized into several regions, each of which is responsible for the management of the public lands in that region.

A further example of the Bureau's work is the management of the public lands in the State of California. The Bureau is responsible for the management of the public lands in California, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.

Example	100 of \$	100 of \$	100 of \$	100 of \$
California population	100,000,000	100,000,000	100,000,000	100,000,000
with	100,000,000	100,000,000	100,000,000	100,000,000
California population with	100,000,000	100,000,000	100,000,000	100,000,000
assets of	100,000,000	100,000,000	100,000,000	100,000,000
assets of	100,000,000	100,000,000	100,000,000	100,000,000

The Bureau's work is divided into several regions, each of which is responsible for the management of the public lands in that region. The Bureau is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.

1. The first is the management of the public lands in the State of California. The Bureau is responsible for the management of the public lands in California, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
2. The second is the management of the public lands in the State of Texas. The Bureau is responsible for the management of the public lands in Texas, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
3. The third is the management of the public lands in the State of New Mexico. The Bureau is responsible for the management of the public lands in New Mexico, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
4. The fourth is the management of the public lands in the State of Arizona. The Bureau is responsible for the management of the public lands in Arizona, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
5. The fifth is the management of the public lands in the State of Nevada. The Bureau is responsible for the management of the public lands in Nevada, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
6. The sixth is the management of the public lands in the State of Utah. The Bureau is responsible for the management of the public lands in Utah, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
7. The seventh is the management of the public lands in the State of Colorado. The Bureau is responsible for the management of the public lands in Colorado, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
8. The eighth is the management of the public lands in the State of Wyoming. The Bureau is responsible for the management of the public lands in Wyoming, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
9. The ninth is the management of the public lands in the State of Montana. The Bureau is responsible for the management of the public lands in Montana, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.
10. The tenth is the management of the public lands in the State of Idaho. The Bureau is responsible for the management of the public lands in Idaho, and it is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation.

The Bureau's work is divided into several regions, each of which is responsible for the management of the public lands in that region. The Bureau is working to ensure that the public lands are managed in a way that is consistent with the needs of the State and the Nation. The Bureau is also working to ensure that the public lands are managed in a way that is consistent with the needs of the Nation. The Bureau is also working to ensure that the public lands are managed in a way that is consistent with the needs of the Nation.



Nethercut & Young

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Toronto, Ontario

1 as at December 31, without any other charge on
2 gross profits. Five per cent of contributions is
3 paid into the Security Fund, and 55 per cent of
4 the balance is paid to the Federation, a ratio
5 approximately equal to that of other regional
6 unions. The Montreal regional union administers
7 its own security fund for the benefit of its
8 affiliated caisses populaires.



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Vetherout d'Henry
Toronto, Ontario

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CONTRIBUTIONS DES CAISSES PAR UNION REGIONALE

du 1er avril 1961 au 31 mars 1962

UNION REGIONALE	CUMULATIF		COMPARATIF
	1er avril 1961 - 31 mars 1962		au 31 mars 19
<u>Trois-Rivières</u>			
1/10 de 1%	\$ 55,530.05	\$ 50,155.42	
2%	49,461.57	45,339.98	
TOTAL:	\$ 104,991.62	\$ 95,495.40	
<u>Québec</u>			
1/10 de 1%	\$ 117,471.22	\$ 105,523.74	
2%	101,364.28	91,353.28	
TOTAL:	\$ 218,835.50	\$ 196,877.02	
<u>Montréal</u>			
1/6 de 1%	\$ 251,351.73	\$ 219,021.24	
<u>Gaspé</u>			
1/10 de 1%	\$ 4,079.51	\$ 3,720.48	
2%	3,437.88	2,977.10	
TOTAL:	\$ 7,517.39	\$ 6,697.58	
<u>Sherbrooke</u>			
1/10 de 1%	\$ 18,455.01	\$ 16,184.34	
2%	15,699.26	13,890.62	
TOTAL:	\$ 34,154.27	\$ 30,074.96	
<u>Rimouski</u>			
1/10 de 1%	\$ 12,847.51	\$ 11,491.25	
2%	10,331.96	9,540.92	
TOTAL:	\$ 23,179.47	\$ 21,032.17	
<u>Chicoutimi</u>			
1/10 de 1%	\$ 14,190.49	\$ 11,227.69	
2%	12,346.62	12,540.53	
TOTAL:	\$ 26,537.11	\$ 23,768.22	
<u>Ouest-Québécois</u>			
1/10 de 1%	\$ 1,960.48	\$ 1,705.75	
2%	1,795.41	1,511.12	
TOTAL:	\$ 3,755.89	\$ 3,216.87	
<u>St-Hyacinthe</u>			
1/10 de 1%	\$ 23,198.51	\$ 19,237.22	
2%	19,482.81	16,162.79	
TOTAL:	\$ 42,681.32	\$ 35,400.01	
<u>Joliette</u>			
1/10 de 1%	\$ 14,293.91	\$ 12,348.26	
2%	11,827.39	10,254.99	
TOTAL:	\$ 26,121.30	\$ 22,603.25	
TOTAL:			
1/10 de 1%	\$ 513,378.42	\$ 450,615.39	
2%	225,747.18	203,571.33	
GRAND TOTAL:	\$ 739,125.60	\$ 654,186.72	

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4. Internal Management

(a) General meeting

The general meeting of the regional union includes a delegate from each affiliated caisse populaire. The rules of procedure are the same as in a local caisse populaire.

(b) Board of management

The board of management is usually appointed from among the delegates of affiliated caisses populaires. In most unions, any member of a caisse populaire is eligible.

(c) Credit committee

The same rules apply.

(d) Board of supervision

The same rules apply.

5. Services

(a) Educational

Regional unions advise their affiliated caisses populaires, stimulate them, supervise them and help them fulfil their goals.

They strive to improve the co-operative and social education and technical training of officers of the caisses populaires. The regional unions have propagandists and instructors who regularly visit the caisses populaires. They provide to the board of management, credit committee and board of supervision of the caisses populaires the assistance they need for the proper discharge of their duties. They supply needed information to managers, helping them where necessary to balance their books and prepare

(Faint handwritten notes)



1 financial reports, training them in any of their
2 tasks. They attend the general meetings of share-
3 holders of the caisses populaires, and take every
4 opportunity to educate the members in the co-
5 operative movement and to urge upon them the need
6 for thrift, saving and of the proper use of credit.

7 The regional unions help establish caisses
8 populaires in parishes where none exist and where
9 one is desired.

10 (b) Financial - The regional or central 'caisses'

11 The regional unions operate a savings and
12 credit service known as the regional or central
13 caisse, which ensures the financial consolidation
14 of the caisses populaires movement and provides for
15 a more complete use of savings. The regional
16 caisse also acts as a clearing house for payment
17 orders and cheques. Occasionally, they grant loans
18 to their affiliated caisses populaires. They also
19 help the affiliates make better use of their surplus
20 savings by finding them first rate bonds at the
21 lowest possible costs.

22 It should be noted however that the regional
23 caisses do not loan money to affiliated caisses
24 populaires to enable them to increase their loans to
25 their shareholders.

26 (B) The Quebec Federation of The Unions regionales
27 des Caisses Populaires Desjardins

28 1. A few historical notes

29 In 1932, the regional unions of Trois-
30 Rivieres, Quebec, Gaspé and Montreal (which at the

financial support, having been in way of being
lacking. They are not the general meetings of other
holders of the same property, and this every
opportunity to receive the benefit in the
operative business and to give them the same
for benefit, saving all of the expense of the
The regional board has established relations
relations in various states and where
one is desired.

The Board of Directors of the
The Board of Directors of the
The Board of Directors of the
The Board of Directors of the

of the various political movements and provides for
a more complete view of the situation. The regional
board also acts as a clearing house for
orders and orders. Consequently, they grant loans
to their affiliated political parties. They also
help the affiliated parties with the use of local
money in raising their funds and in the
conduct of their business.

It should be noted however that the regional
board is not free money to affiliated parties
parties or enable them to maintain their loans to

(8) The regional board of the
The regional board of the
The regional board of the
The regional board of the



time were the only ones in existence joined together and set up the Federation provinciale des Unions regionales des Caisses populaires Desjardins to provide greater consolidation and protection for the caisses populaires movement.

The six other regional unions which were subsequently set up joined the Federation provinciale de Quebec des Unions regionales.

2. Role or functions

An agency of unification and direction in doctrinal matters and of co-ordination in practical matters, the Federation des Unions regionales des Caisses populaires completes the structure of the co-operative savings and credit movement in Quebec.

It promotes the interests of the caisses populaires movement and spreads co-operative ideas concerning popular savings and credit. By ensuring co-operation between the regional unions and the regional caisses, it consolidates the savings and credit co-operative movement and enhances its effectiveness.

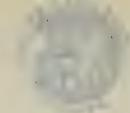
3. Governing bodies

(a) General meeting

The general meeting is composed of five (5) delegates designated by the board of management of each affiliated regional union.

(b) Board of management

The board of management is composed of two (2) delegates designated by the board of management of each affiliated regional union.



and set up the Federation of the United Nations
 regional and national organizations to
 provide greater coordination and cooperation for
 the various organizations concerned.

Subsequently set up joined the Federation of the United Nations
 de France des United Nations

2. Role of the Federation

An agency of unification and direction in
 technical matters and of co-ordination in practical
 matters, the Federation des Nations regionales des
 Nations populaires completed the structure of the
 co-operative savings and credit movement in Quebec.
 It promotes the interests of the various
 population movement and towards co-operative ideas
 economic savings savings and credit. By encouraging
 co-operation between the regional unions and the
 regional centers, it consolidated the savings
 and credit co-operative movement and achieved the

3. Regional bodies

(a) General meeting

The general meeting is composed of five (5)
 delegates designated by the board of management

of each affiliated regional union

(b) Board of management

The board of management is composed of five (5)

(2) delegates designated by the board of management

of each affiliated regional union



(c) Executive committee

The executive committee of the Federation includes the officers of the society and at least two persons designated by the board of management from among its members at the first meeting following the annual general meeting.

The executive committee of the Federation carries out the general or specific decisions of the board of management, assists the manager in his tasks and takes all decisions required for the management of the Federation's day to day business.

4. Services

(a) The Secretariat

1. Documentation and information centre
2. Records

(b) Education and propaganda

1. Revue Desjardins

2. The newspaper "Ma Caisse"
3. Publications or pamphlets

(c) Stationery

The other services (inspection, legal advice, office machines and statistics) are described in part II of this brief.

9. THE 'SOCIETE D'ASSURANCE DES CAISSES POPULAIRES'

To protect the interests of their members, the Caisses Populaires Desjardins in 1944 founded the Societe d'assurance des Caisses populaires and subscribed the necessary capital for its operation.

Incorporated in March 1944 under VIII, George VI, Chapter 80, which was later amended in



1 February 1961, the Societe d'Assurance des Caisses
2 Populaires issues, through its representatives,
3 insurance policies covering fire, civil responsibility,
4 registered mail, theft, bonding, combined protection
5 for home, personal responsibility, employer responsi-
6 bility, fidelity guarantee and automobile. In
7 addition, under its all-inclusive protection policies
8 issued to all caisses populaires, the latter are
9 compensated for any loss of money or valuables
10 resulting from dishonest actions on the part of
11 officers and employees, theft, armed robbery, break-
12 ins and damages therefrom, falsification or
13 alteration of or on any trade bill or document, in-
14 cluding the loss of money and valuables sent by
15 registered mail. Such a contract is usually
16 difficult to purchase from insurance firms and is often
17 very costly in view of the ever-increasing number
18 of thefts.

19 Caisses populaires operate in most cities
20 and towns of the province, and some are located in
21 remote territories where there is no fire protection,
22 thus making it difficult to obtain fire insurance
23 overage on buildings used as security for loans.
24 The Societe d'Assurance des Caisses populaires
25 provides them the needed protection.

26 The board of management of the Societe
27 d'Assurance des Caisses Populaires is composed of
28 fifteen members. Without regard to the capital
29 subscribed by the caisses populaires, ten members
30 represent and are elected by the insurance policy



holders; the five others represent the caisses
populaires.

The Societe d'Assurance des Caisses Populaires
was therefore set up for the purpose of compensating
its members for the loss of physical assets due to
fire, theft, bodily injuries or death resulting
therefrom, accidents, while contributing to the
national economy.

10. THE 'ASSURANCE-VIE DESJARDINS'

The Assurance-Vie Desjardins was incorporated
in 1948 "for the purpose of promoting and safeguarding
the general interests of co-operators and members
of caisses populaires". It is a mutual company
whose share capital was subscribed by the caisses
populaires and which is the property of the latter
and of all its policy holders. Three of its directors
are elected by the caisses populaires and the others
are jointly elected by the caisses populaires and the
policy holders. In 1959, the provincial charter
of the Assurance-Vie Desjardins was replaced by a
federal charter which now enables it to offer its
services across Canada, particularly to savings
and credit co-operatives and their members.

The Assurance-Vie Desjardins has had an
impact in the insurance business through the develop-
ment of many new policies, particularly in the field
of social security and the protection of school
children and students. Thus in 1953, the Assurance-
Vie Desjardins came out with its family insurance
and family protection plans. In 1945, it organized



THE ASSURANCE-VIE DE BELGIUM

THE ASSURANCE-VIE DE BELGIUM

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THE ASSURANCE-VIE DE BELGIUM

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national economy.

THE ASSURANCE-VIE DE BELGIUM

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in 1948 "for the purpose of promoting and safeguarding

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whose share capital was subscribed by the classes

populations and which is the property of the latter

and of all its policy holders. Three of the directors

are elected by the classes populations and the others

are jointly elected by the classes populations and the

policy holders. In 1959, the provincial government

of the Assurance-Vie de Belgique was replaced by a

federal charter which now enables it to offer life

insurance services overseas, particularly to Belgium

and credit co-operators and their members.

The Assurance-Vie de Belgique was had an

impact in the insurance business through the develop-

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of social security and the protection of labour

children and students. Thus in 1963, the Assurance-

THE ASSURANCE-VIE DE BELGIUM

THE ASSURANCE-VIE DE BELGIUM



1 a loan insurance and savings insurance department
2 to promote popular savings in the caisses populaires.
3 In 1958, the Assurance-Vie Desjardins offered its
4 accident protection plans for school children
5 and students. To further improve its service to
6 the policyholders, the Assurance-Vie Desjardins
7 acquired, in 1960, a Ramac IBM 305 electronic brain,
8 the first to be used by a Canadian insurance firm.
9 For the benefit of its younger policyholders, the
10 Assurance-Vie Desjardins just recently set up
11 (in April 1962) an accident prevention department.
12 The purpose of this department is to analyze the
13 statistics from claim files as a means of developing
14 modern methods for the prevention of accidents in the
15 schools, at play and in the homes. The Assurance-
16 Vie Desjardins has thus placed its experience at the
17 disposal of the general public, educators, government
18 and private agencies. The latter have in fact been
19 unanimous in commending this initiative and the
20 community spirit shown by the company.

21 The Assurance-Vie Desjardins is known for
22 the fine quality of its services, but it is also
23 known in all social classes for its devotion to
24 the cause of adult education. Over several years,
25 it has sponsored educational broadcasts on television.
26 For three years, millions of people have followed
27 and enjoyed the series "Joindre les deux bouts",
28 which was concerned with budgeting, and looked into
29 the budgets of business concerns, governments and
30 families. The educational value and usefulness of



a loan insurance and savings insurance department
to promote popular savings in the classes population
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the budgets of business concerns, governments and



1 these broadcasts have been recognized by people from
2 all walks of life, and have been extended through
3 the publication of a book entitled "Comment joindre
4 les deux bouts", based on this program. In 1961-62,
5 the Assurance-Vie Desjardins planned and sponsored
6 the program "Droit de Cite", a series of twenty-six
7 broadcasts which explained to the people all the
8 machinery of municipal administration. To make
9 these broadcasts available to the greatest possible
10 number of Canadians, the Assurance-Vie Desjardins
11 and the CBC created the most extensive hook up of
12 stations in Canada. This is also true of the radio
13 program "Fete au Village", presented over the past
14 few years across the country by the Assurance-Vie
15 Desjardins.

16 Ever since its inception, the Assurance-
17 Vie Desjardins has concentrated on the co-operative
18 sector of the economy, as evidenced by its services
19 to the caisses populaires, its loans to co-operatives
20 and its strong defence and promotion of co-operative
21 institutions. The Assurance-Vie Desjardins is a member
22 of the insurance committee of the International Co-
23 operative Alliance, an organization devoted to the
24 extension of the co-operative movement throughout
25 the world and particularly in the emerging countries.
26 For this purpose, the Alliance has set up a research
27 sub-committee on which the Assurance-Vie Desjardins
28 is represented by its director-general.

29 The Assurance-Vie Desjardins has been in
30 existence for only thirteen years. Its rate of growth

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sub-committee on which the Assurance-Vie Desjardins

is represented by its director-general.

The Assurance-Vie Desjardins has been in

existence for only thirteen years. Its rate of growth



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Toronto, Ontario

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1 has been one of the highest of all insurance companies
2 in North America. On December 13, 1961, it had in
3 excess of \$800 million worth of insurance policies
4 in force, and assets of \$12½ million. Its contracts
5 have become extremely popular, whether in the fields
6 of individual or family coverage, life insurance
7 on loans and savings, group insurance, accident
8 and health insurance or accident insurance for
9 school children and students.

10 The contribution of the Assurance-Vie
11 Desjardins in the field of insurance has received
12 recognition from many sources, and so has its
13 concern for the social and cultural improvement of
14 our people.



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SECTION I

SECTION II

STRUCTURE, OPERATION, AND

SERVICES



SECTION II

CONSTRUCTION, OPERATION AND

REMARKS

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SECTION II

Structure, operation and services

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- a) Staff of the caisses populaires Desjardins
- b) Order of development according to the type of caisse populaire and to the region
- c) Territorial jurisdiction of the regional unions of the Caisses populaires Desjardins
- d) Consolidated balance sheets of regional or central "caisses" and affiliates
- e) Composition of the three boards of regional unions
- f) Composition of the board of directors of the Federation de Quebec des Unions regionales des Caisses populaires Desjardins
- g) Composition of the executive committee of the Federation de Quebec des Unions regionales des Caisses populaires Desjardins
- h) Description of duties of officers
- i) Education and training.

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- b) Professional direction
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 - a) Expansion of staff
 - b) Staff training
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ANNEX 1

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- f) Composition of the board of directors of the Federation de Quebec des Unions regionales des Cattle population branches
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- i) Education and training

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- B) SUPERVISION AND PROMOTION
- C) - PROMOTION
- a) Historical notes
- b) Professional direction
- C - STAFF TRAINING
- d) Expansion of staff
- e) Staff training
- 1) Annual convention of inspectors
- 2) Staff training
- 3) Quarterly meeting of staff
- 4) Manual of accounting and inspection
- 5) Training school - Staff training



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1 - Cash in hand and liquid reserves

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c) General liquidity



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- b) Liquidity of investments
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- d) Loans subject to approval by the regional union or the Federation



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b) Loans to co-operatives

2. Mortgages

a) Family dwellings

b) Social value of loans on mortgages

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g) Rate of interest

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3. Loans on mortgages

h) Life insurance on loans

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1. SAVINGS

a) Increase in savings in the caisses populaires

b) Distribution of savings accounts as of 31 December 1961

c) Use of savings accounts

d) Withdrawals from savings

e) Rate of interest on savings

f) Effects of changes in the rate of interest on the volume of savings

g) Life insurance on savings

2. CAPITAL

a) Volume of withdrawals of membership shares

b) Rates of bonus

c) Effects of bonus rates on the volume of share capital

d) Insurance against losses



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- a) Loans to public bodies
- b) Loans to co-operatives

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- a) Housing mortgage
- b) Social value of loans on mortgages
- c) Difference between rates
- d) Rate of interest
- e) Principles

2. Loans against acknowledgment of debt

3. Loans on mortgages

h) Life insurance on loans

IV - ANALYSIS

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- a) Increase in savings in the savings population
- b) Distribution of savings accounts as of 31 December 1961
- c) Use of savings accounts
- d) Withdrawals from savings
- e) Rate of interest on savings
- f) Effects of changes in the rate of interest on the volume of savings
- g) Life insurance on savings

2. CAPITAL

- a) Volume of withdrawals of membership shares
- b) Rates of bonus
- c) Effects of bonus rates on the volume of (savings capital)

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6. Offices
7. Business hours
8. Rate of expansion

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d) The exclusive field of endeavour of the caisses populaires

e) Clearing



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1 - ORGANIZATION AND ADMINISTRATION

(a) Staff of the Caisses populaires Desjardins

At December 31, 1961, out of 1,237 caisses populaires reporting, 1,202 were of the parochial type, 14 were of the occupational type and 21 were student caisses populaires. (The latter are not to be confused with the approximately 600 school savings schemes depositing funds with the parochial caisses populaires).

Development from 1935 to 1960

At December 31	Number of caisses populaires	Number of Members	Assets
1935	239	46,815	\$ 10,555,087
1940	549	119,320	21,208,774
1945	904	371,211	119,089,459
1950	1,078	599,628	223,913,513
1955	1,132	852,325	402,282,088
1960	1,221	1,211,041	687,935,545

See statistics section, pages to for
additional information.

(b) Order of development according to the type of
caisse populaire and to the Region

The following table shows the French-Canadian population of the province of Quebec in 1959 (according to "Le Canada Ecclésiastique 1960"), the number of members for each region and the percentage of members of caisses populaires in relation to the total population.



1 - DEVELOPMENT OF THE PROVINCE

(a) Order of development according to the type of

At December 31, 1961, out of 1,227 cases
 population reporting, 1,202 were of the parochial type,
 14 were of the occupational type and 21 were student
 cases population. (The latter are not to be
 confused with the occupational cases population)
 depositing funds with the parochial cases population).

Development from 1935 to 1960

Assets	Number of Members	Number of Cases Population	At December 31
10,555,087	48,415	239	1935
21,208,174	119,320	245	1940
113,082,459	341,241	204	1945
323,442,512	399,498	1,078	1950
402,282,088	452,325	1,132	1955
687,932,266	1,211,041	1,221	1960

See statistics section, pages 10 to 14

Order of development

(b) Order of development according to the type of
 cases population and to the Region

The following table shows the French-Canadian
 population of the province of Quebec in 1960 (according
 to "Le Canada Échafaudage 1960", the number of
 members for each region and the percentage of members
 of cases population in relation to the total

population



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Unions	French-Canadian population	Number of Members	%
Trois-Rivières	359,744	143,753	40.0
Québec	782,784	314,694	40.2
Montréal	1,704,011	370,934	21.8
Gaspé	89,097	20,277	22.8
Sherbrooke	199,107	62,476	31.4
Rimouski	188,588	56,395	29.9
Chicoutimi	235,063	62,646	26.7
Ouest-Québécois	72,261	13,078	18.1
St-Hyacinthe	203,676	57,790	28.4
Joliette	93,335	35,022	37.5
Total:	3,927,666	1,137,065	29.0%

The caisses populaires in the Quebec and Trois-Rivières regions have reached or exceeded a 40 per cent membership among the French-speaking Catholic population. In western Quebec, the percentage is only 18.1 per cent. In Montreal, the ratio is only 21.8 per cent, a fact which partly explains the rapid growth of the caisses populaires located in that area, which is the most densely populated in the province of Quebec.

(c) Territorial jurisdiction of the Regional Unions of the Caisses populaires Desjardins

The regional unions have adopted the diocese as the basis of their territorial jurisdiction, except the unions of Trois-Rivières, Quebec and Montreal which include two or more dioceses.



Trois-Rivières		Total	
10.4	10.4	10.4	10.4
10.2	10.2	10.2	10.2
10.1	10.1	10.1	10.1
10.0	10.0	10.0	10.0
9.9	9.9	9.9	9.9
9.8	9.8	9.8	9.8
9.7	9.7	9.7	9.7
9.6	9.6	9.6	9.6
9.5	9.5	9.5	9.5
9.4	9.4	9.4	9.4
9.3	9.3	9.3	9.3
9.2	9.2	9.2	9.2
9.1	9.1	9.1	9.1
9.0	9.0	9.0	9.0
8.9	8.9	8.9	8.9
8.8	8.8	8.8	8.8
8.7	8.7	8.7	8.7
8.6	8.6	8.6	8.6
8.5	8.5	8.5	8.5
8.4	8.4	8.4	8.4
8.3	8.3	8.3	8.3
8.2	8.2	8.2	8.2
8.1	8.1	8.1	8.1
8.0	8.0	8.0	8.0
7.9	7.9	7.9	7.9
7.8	7.8	7.8	7.8
7.7	7.7	7.7	7.7
7.6	7.6	7.6	7.6
7.5	7.5	7.5	7.5
7.4	7.4	7.4	7.4
7.3	7.3	7.3	7.3
7.2	7.2	7.2	7.2
7.1	7.1	7.1	7.1
7.0	7.0	7.0	7.0
6.9	6.9	6.9	6.9
6.8	6.8	6.8	6.8
6.7	6.7	6.7	6.7
6.6	6.6	6.6	6.6
6.5	6.5	6.5	6.5
6.4	6.4	6.4	6.4
6.3	6.3	6.3	6.3
6.2	6.2	6.2	6.2
6.1	6.1	6.1	6.1
6.0	6.0	6.0	6.0
5.9	5.9	5.9	5.9
5.8	5.8	5.8	5.8
5.7	5.7	5.7	5.7
5.6	5.6	5.6	5.6
5.5	5.5	5.5	5.5
5.4	5.4	5.4	5.4
5.3	5.3	5.3	5.3
5.2	5.2	5.2	5.2
5.1	5.1	5.1	5.1
5.0	5.0	5.0	5.0
4.9	4.9	4.9	4.9
4.8	4.8	4.8	4.8
4.7	4.7	4.7	4.7
4.6	4.6	4.6	4.6
4.5	4.5	4.5	4.5
4.4	4.4	4.4	4.4
4.3	4.3	4.3	4.3
4.2	4.2	4.2	4.2
4.1	4.1	4.1	4.1
4.0	4.0	4.0	4.0
3.9	3.9	3.9	3.9
3.8	3.8	3.8	3.8
3.7	3.7	3.7	3.7
3.6	3.6	3.6	3.6
3.5	3.5	3.5	3.5
3.4	3.4	3.4	3.4
3.3	3.3	3.3	3.3
3.2	3.2	3.2	3.2
3.1	3.1	3.1	3.1
3.0	3.0	3.0	3.0
2.9	2.9	2.9	2.9
2.8	2.8	2.8	2.8
2.7	2.7	2.7	2.7
2.6	2.6	2.6	2.6
2.5	2.5	2.5	2.5
2.4	2.4	2.4	2.4
2.3	2.3	2.3	2.3
2.2	2.2	2.2	2.2
2.1	2.1	2.1	2.1
2.0	2.0	2.0	2.0
1.9	1.9	1.9	1.9
1.8	1.8	1.8	1.8
1.7	1.7	1.7	1.7
1.6	1.6	1.6	1.6
1.5	1.5	1.5	1.5
1.4	1.4	1.4	1.4
1.3	1.3	1.3	1.3
1.2	1.2	1.2	1.2
1.1	1.1	1.1	1.1
1.0	1.0	1.0	1.0
0.9	0.9	0.9	0.9
0.8	0.8	0.8	0.8
0.7	0.7	0.7	0.7
0.6	0.6	0.6	0.6
0.5	0.5	0.5	0.5
0.4	0.4	0.4	0.4
0.3	0.3	0.3	0.3
0.2	0.2	0.2	0.2
0.1	0.1	0.1	0.1
0.0	0.0	0.0	0.0

THE ROMAN CATHOLIC DIOCESE OF TROIS-RIVIERES

Trois-Rivières regions have reached or exceeded a 10 per cent membership among the French-speaking Catholic population. In western Quebec, the percentage is only 18.1 per cent. In Montreal, the ratio is only 21.8 per cent, a fact which partly explains the rapid growth of the caisses populaires located in that area, which is the most densely populated in the province of Quebec.

(c) Territorial Jurisdiction of the Regional Unions of the Caisse Populaires

The regional unions have adopted the diocese as the basis of their territorial jurisdiction, except the unions of Trois-Rivières, Québec and Montréal which include two or more dioceses.



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<u>Date of Foundation</u>	<u>Name of Regional Union</u>	<u>Territory of Jurisdiction</u>
15-12-1920	L'Union régionale des Caisses populaires Desjardins de Trois-Rivières	Trois-Rivières, Nicolet.
17-12-1921	L'Union régionale des Caisses populaires Desjardins du district de Québec	Québec, Ste-Anne-de-la-Pocatière, Hauterive, Vicariat Apostolique du Labrador.
27-6-1924	L'Union régionale de Montréal des Caisses populaires Desjardins	Montréal, Valleyfield, St-Jean, Ottawa, Mont-Laurier, Timmins, St-Jérôme, Pembroke.
1-9-1925	L'Union régionale des Caisses populaires Desjardins du district de Gaspé	Gaspé
14-5-1934	L'Union régionale des Caisses populaires Desjardins de Sherbrooke	Sherbrooke
29-7-1937	L'Union régionale des Caisses populaires Desjardins du diocèse de Rimouski	Rimouski
1-8-1943	L'Union régionale des Caisses populaires Desjardins du diocèse de Chicoutimi	Chicoutimi
29-2-1944	L'Union régionale des Caisses populaires Desjardins de l'Ouest-Québécois	Amos
2-5-1944	L'Union régionale de St-Hyacinthe des Caisses populaires Desjardins	St-Hyacinthe
19-11-1944	L'Union régionale des Caisses populaires Desjardins de Joliette	Joliette
Development of Regional Unions from 1935 to 1960		

At December 31	Number of Regional Unions	Number of Affiliated Caisses populaires	Assets of Regional Unions
1935	4	234	\$ 1,045,951
1940	6	547	3,673,810
1945	10	904	15,651,328
1950	10	1,078	26,049,394
1955	10	1,132	54,312,041
1960	10	1,221	107,957,611



(d) Consolidated Balance Sheets of Regional or Central
"caisses" and Affiliates

The statistics section, pages 154 to 191, shows the consolidated balance sheets of the regional or central caisses populaires and of the affiliated caisses populaires.

(e) Composition of the Three Boards of Regional
Unions

The composition of the three boards of the Unions régionales des Caisses populaires Desjardins is shown in the second annex to this brief.

(f) Composition of the Board of Directors of the
Fédération de Québec des Unions régionales des
Caisses populaires Desjardins

GIRARDIN, Emile - President

President of the Caisse centrale Desjardins of Montreal - President Manager of the Union régionale de Montréal des Caisses populaires Desjardins - President of the Caisse populaire Notre-Dame de Grâce de Montréal.

PLOURDE, M.-Adélard, N.P. - Vice-President

President of the Union régionale des Caisses populaires Desjardins du diocèse de Chicoutimi - President of the Caisse populaire de St. Jérôme.

CARON, Jean-Jacques - 2nd Vice-President

Managing Secretary of the Union régionale des Caisses populaires Desjardins de Trois-Rivières.

VAILLANCOURT, Hon. Senator Cyrille - Managing Director

Managing President of the Caisse centrale des Jardins de Lévis - Managing President of the Union régionale des Caisses populaires Desjardins du district de Québec - Director of the Caisse populaire de Lévis.



(d) Consolidated Balance Sheets of Regional or Central
"Caisse" and Affiliates

The statistical section, pages 124 to 131,
shows the consolidated balance sheets of the regional
or central caisses populaires and of the affiliated

(e) Composition of the Three Boards of Regional
Unions

The composition of the three boards of the
Unions régionales des Caisses populaires Desjardins
is shown in the second annex to this report.

(f) Composition of the Board of Directors of the
Fédération de Québec des Unions régionales des
Caisses populaires Desjardins

GERARDIN, Marie - President

President of the Caisse centrale
Desjardins de Montréal - President
Manager of the Union régionale de
Montréal des Caisses populaires
Desjardins - President of the Caisse
populaire Notre-Dame de Grâce de
Montréal

Unions régionales de la région de Québec

President of the Union régionale
des Caisses populaires Desjardins
de Québec de Montréal - President
of the Caisse populaire de St. Jérôme

CARON, Jean-Jacques - 2nd Vice-President

Managing Secretary of the Union
régionale des Caisses populaires
Desjardins de Trois-Rivières

VALLEAUME, Hon. Senator Cyrille - Managing Director

Managing President of the Caisse
centrale des Unions de Lévis -
Managing President of the Union
régionale des Caisses populaires
Desjardins de Québec de Québec
Director of the Caisse populaire
de Lévis



1 TURMEL, Emile, Abbé - Secretary

2 Secretary of the Union régionale des
3 Caisses populaires Desjardins du
4 district de Quebec.

4 RIVARD, Gérard - Director

5 President of the Union régionale des
6 Caisses populaires Desjardins de
7 Trois-Rivières - Vice-President of the
8 Caisse populaire de Nicolet.

8 REMILLARD, Lucien - Director

9 Manager of the Caisse centrale
10 Desjardins de Montréal - President
11 of the Caisse populaire - St.-Jean
12 de la Croix.

11 GAGNON, Olivier - Director

12 President of l'Union régionale des
13 Caisses populaires Desjardins du
14 district de Gaspé- Manager of the
15 Caisses populaire de Cap Chat.

15 BERNARD, Adrien - Director

16 Managing Secretary of the Union
17 régionale des Caisses populaires
18 Desjardins du district de Gaspé.

18 BELLIVEAU, Fidèle - Director

19 President of the Union régionale des
20 Caisses populaires Desjardins de
21 Sherbrooke - Manager of the Caisse
22 populaire Ste-Jeanne d'Arc de
23 Sherbrooke.

22 UPONT, René - Director

23 Managing Secretary of the Union
24 régionale des Caisses populaires
25 Desjardins de Sherbrooke.

25 LEBEL, G.-Alexis, N.P. - Director

26 Director of the Union régionale des
27 Caisses populaires Desjardins du
28 diocèse de Rimouski - Director of the
29 Caisse populaire de Matane.

28 BOUCHARD, Georges-A. - Director

29 Vice-President of the Union régionale
30 des Caisses populaires Desjardins du
diocèse de Rimouski - Manager of the
Caisse populaire de Rimouski,



1944-1945 - 1946

Secretary of the Union régionale des
Chasseurs population Résidents du
diocèse de Québec

1946-1947 - 1948

President of the Union régionale des
Chasseurs population Résidents du
diocèse de Québec - Vice-President of the
Chasse population de Québec.

1948-1949 - 1950

Manager of the Chasse population
Résidents du diocèse de Québec - Président
of the Chasse population - 22-June
de la Chasse.

1950-1951 - 1952

President of the Chasse population Résidents du
diocèse de Québec - Manager of the
Chasse population de Québec.

1952-1953 - 1954

President of the Chasse population Résidents du
diocèse de Québec - Manager of the
Chasse population de Québec.

1954-1955 - 1956

President of the Union régionale des
Chasseurs population Résidents du
diocèse de Québec - Manager of the Chasse
population Résidents du diocèse de Québec.

1956-1957 - 1958

Manager of the Union régionale des
Chasseurs population Résidents du
diocèse de Québec.

1958-1959 - 1960

Director of the Union régionale des
Chasseurs population Résidents du
diocèse de Québec - Director of the
Chasse population de Québec.

1960-1961 - 1962

Vice-President of the Union régionale
des Chasseurs population Résidents du
diocèse de Québec - Manager of the
Chasse population de Québec.



Managing Secretary of the Union
régionale des Caisses populaires
Desjardins du diocèse de Rimouski.

PELLETIER, Robert - Director

President of the Union régionale
des Caisses populaires de l'Ouest-
Québécois - Manager of the Caisse
populaire de Palmarolle.

PERRAULT, Maurice - Director

Managing Secretary of the Union
régionale des Caisses populaires
Desjardins de St-Hyacinthe -
President of the Caisse populaires
de Granby.

MACKAY, Napoléon - Director

Managing Secretary of the Union
régionale des Caisses populaires
Desjardins de St-Hyacinthe.

LEFEBVRE, Jean-Baptiste - Director

President of the Union régionale
des Caisses populaires Desjardins
de Joliette - Manager of the Caisse
populaire de St-Thomas.

GRAVEL, Marcel - Director

Managing Secretary of the Union
régionale des Caisses populaires
Desjardins de Joliette.

HUDON, Guy. K.C. - Legal Adviser

(g) Composition of the Executive Committee of the
Fédération de Québec des Unions régionales des
Caisses populaires Desjardins

Messrs. GIRARDIN, Emile

CARON, Jean-Jacques

VAILLANCOURT, Hon. Senator Cyrille

TURNEL, Emile, Abbé

DUPONT, René

BOUCHARD, Georges-A.

GRAVEL, Marcel



President of the Union régionale
des Caisses populaires de l'ouest.
Monsieur - Manager of the Union
populaire de l'ouest.

President of the Union régionale
des Caisses populaires de l'ouest.
Monsieur - Manager of the Union
populaire de l'ouest.

Managing Secretary of the Union
régionale des Caisses populaires
de l'ouest de St-Hubert.
President of the Union régionale
de l'ouest.

Managing Secretary of the Union
régionale des Caisses populaires
de l'ouest de St-Hubert.

President of the Union régionale
des Caisses populaires de l'ouest
de l'ouest - Manager of the Union
populaire de St-Hubert.

Managing Secretary of the Union
régionale des Caisses populaires
de l'ouest de l'ouest.

HUDON, Guy, R.O. - Legal Adviser

(g) Composition of the Executive Committee of the
Fédération de Québec des Unions régionales des
Caisses populaires de l'ouest

Monsieur JERARDIN, Emil

Monsieur Jean-Jacques



1 (h) Description of Duties of Officers

2 The manager is the executive administrator
3 of the caisse populaire. He carried out the decisions
4 of the board of directors and of the credit committee
5 of which he serves as secretary. He supervises the
6 entire staff of the caisse, and distributes the work
7 according to the size of the operation. In a large
8 caisse populaire, there may be up to 20 employees.
9 In such cases, there is an assistant manager, book-
10 keepers, etc. The distribution of duties varies
11 according to the needs.

12 The president of the caisse populaire ranks
13 above the manager, but as he may not draw a salary,
14 he generally directs the caisse populaire from a
15 distance. He may influence the general policies of the
16 caisse populaire by personal interventions at
17 appropriate times, and particularly at meetings of the
18 board of directors and at general meetings of share-
19 holders, at which he presides. In case of a tie, he has
20 a second or casting vote.

21 The secretary is responsible for recording
22 the substance of the discussions at the general meeting
23 of shareholders and at the board of directors and for
24 preparing the minutes. He may not draw a salary.

25 The same division of duties, with the
26 necessary adjustments, exists in the regional unions
27 or caisses régionales and in the Fédération des
28 Caisses populaires Desjardins.

29 (i) Education and Training

30 A director of education and propaganda was



The Executive of the Union

The Executive of the Union is composed of the following members:

of the entire population. We carried out the decisions of the board of directors and of the credit committee of which he serves as secretary. He supervises the entire staff of the union, and distributes the work according to the size of the operation. In a large union population, there may be up to 20 employees. In such cases, there is an assistant manager, book-keepers, etc. The distribution of duties varies according to the needs.

The president of the union population ranks

above the manager, but as he may not draw a salary,

he generally directs the union population from a

distance. He may influence the general policies of the

union population by personal interventions at

appropriate times, and particularly at meetings of the

board of directors and at general meetings of share-

holders, at which he presides. In case of a tie, he has

a second or casting vote.

The secretary is responsible for recording

the substance of the discussions at the general meeting

of shareholders and at the board of directors and for

preparing the minutes. He may not draw a salary.

The same division of duties, with the

necessary adjustments, exists in the regional unions

or unions régionales and in the Fédération des

Unions Régionales Françaises

(4) Education and Training

A director of education and propaganda



1 appointed in 1960 to complete the organization of this
2 department in keeping with modern techniques.

3 The Federation prepares a general plan for
4 all the caisses populaires in the province. The
5 regional unions adapt this plan according to the needs
6 of their region and help the local caisses populaires
7 to carry it out. The plan involves among other things
8 an education and propaganda programme in each diocese,
9 series of lectures and management training courses,
10 meetings of presidents and managers and diocesan
11 meetings or partial conventions.

12 Two series of courses were given in Quebec
13 and Montreal during the winter of 1961-1962. They
14 were attended by three hundred managers and approx-
15 imately five hundred directors.

16 A large number of employees at lower levels
17 have also regularly attended specially designed
18 courses.

19
20 II - LEGISLATION, SUPERVISION AND PROTECTION

21 (A) LEGISLATION

22 The first caisse populaire was founded in
23 Lévis on December 6, 1900, before legislation was
24 enacted to govern it. It was only in 1906 that the
25 Quebec Legislature voted the Quebec Co-operative
26 Syndicates Act governing the caisses populaires.

27 In 1907 a bill was introduced in the
28 Canadian parliament for the incorporation of caisses
29 populaires under federal legislation. A special
30 committee of the House of Commons was appointed to



established in 1960 to complete the organization of this
 movement in Quebec and to help the local classes
 of their region and help the local classes
 to carry it out. The plan involves among other things
 an education and propaganda programme in each district,
 series of lectures and management training courses,
 meetings of presidents and managers and discussion
 meetings or political conventions.

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 and Montreal during the winter of 1961-1962. They
 were attended by three hundred managers and approx-
 imately five hundred directors.

A large number of employees at lower levels
 have also regularly attended specially designed
 courses.

II - LEGISLATION, SUPERVISION AND PROTECTION

(A) LEGISLATION

The first labour legislation was founded in
 1900 on December 6, 1900, before legislation was
 enacted to govern it. It was only in 1906 that the
 Quebec legislature voted the Quebec Co-operative
 Syndicates Act governing the labour population.
 In 1907 a bill was introduced in the

Canadian Parliament for the incorporation of labour
 populations under federal legislation. A special
 committee of the House of Commons was appointed to



1 consider the Co-operative Societies Bill. Mr. Alphonse
2 Desjardins, Lord Grey, president of the International
3 Co-operative Alliance and then Governor-General of
4 Canada, as well as other distinguished persons appeared
5 before the committee, which recommended that the bill
6 be passed. It was voted by the House of Commons but
7 rejected in the Senate, which, accepted with a majority
8 of one vote the report of the standing committee on
9 Banking and Commerce in which it was stated that such
10 a bill was outside federal jurisdiction.

11 It will be noted with interest that the
12 standing committee of the Senate on Banking and
13 Commerce received objections to the effect that the
14 bill was outside the jurisdiction of the Federal
15 parliament. The minister of justice, the Hon. Mr.
16 Aylesworth, expressed the following opinion:

17 "In my opinion the subject with which
18 the bill in question deals is within the
19 legislative authority of any provincial
20 legislature ..." (Debates of the Senate
21 1907-8, Vol. 2 page 1577).

22 This statement by the minister of justice also blocked
23 other attempts to obtain federal legislation in 1910,
24 1911 and 1914.

25 Caisses populaires operating in the province
26 of Quebec are governed by a provincial act, the
27 Quebec Co-operative Syndicates Act.

28 The text of the Quebec Co-operative Syndicates
29 Act will be found in the first annex to this brief.
30



Co-operative Alliance and other Governmental...

Canada, as well as other countries, had been reported...

It was stated that the Government had...

be passed. It was voted by the House of Commons...

referred to the Senate, which, accompanied with a majority...

of one vote the report of the Senate Committee on...

Banking and Commerce in which it was stated that such...

It will be noted with interest that the...

standing committee of the Senate on Banking and...

Commerce received opposition to the effect that the...

bill was outdated and that the introduction of the Federal...

parliament. The majority of the House, however, Mr. Mr.

Albright, expressed the following opinion...

Their opinion is that the bill is not...

...in question...

legislative authority of any provincial...

...of the House...

...of the House...

...of the House...

This was done by the House of Commons...

other members of the House...

...of the House...

...of the House...

of which are governed by a provincial act...

...of the House...

...of the House...

Act will be found in the first part of this...



(B) SUPERVISION AND PROTECTION

1 - INSPECTION

(a) Historical Notes

The Federation, by bringing together in one institution the four (4) regional unions which existed in 1932, sought among other things to ensure that in the future, the inspection of the caisses populaires would be done by professionals and according to the same standards throughout the province.

A subsidy was granted by the government of the province of Quebec to assist in the task of auditing and supervising the caisses populaires. The first contract signed between the provincial government and the Federation of regional unions of the Caisses populaires Desjardins, on August 10, 1932, involved a subsidy of \$20,000 to the Fédération des Caisses populaires Desjardins and official recognition, by the government of the province, of inspections carried out in the caisses populaires by the latter. This contract has been renewed several times since then, to the complete satisfaction of all parties.

Such action on the part of the government of the province of Quebec has the great advantage of unifying the authority which it officially recognizes to the Fédération des Caisses Populaires Desjardins, which is responsible for inspecting and supervising the caisses populaires.

(b) Professional Direction

In 1942, the Fédération des Caisses populaires Desjardins decided to appoint a director to its



THE
FEDERATION
OF
INDUSTRIALISTS

The Federation, by bringing together in one

in 1932, sought among other things to ensure that in
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contract signed between the provincial government and

the Federation of regional unions of the various

populations, on August 10, 1932, involved a

subsidy of \$20,000 to the Federation des communes

for the purpose of auditing and supervising the

government of the province, of inspections carried out

in the various populations by the latter. This contract

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complete satisfaction of all parties.

Such action on the part of the government of

the province of Quebec has the great advantage of enabling

the authority which is officially responsible for the

Federation des communes Populaires Quebec, which is

responsible for inspecting and supervising the various

populations.

(2) Professional Inspection

In 1933, the Federation des communes Populaires

has been asked to appoint a director to its



inspection department. At the time, it had twelve (12) regular inspectors. In 1945, two assistants were appointed to the director of this department, and in 1945, a secretary was appointed.

1 - STAFF TRAINING

(a) Expansion of Staff

The rapid increase in the number of caisses populaires and the substantial growth of the assets and membership have created a serious staff shortage. Dozens of new inspectors have had to be hired and trained every year.

(b) Staff Training

The normal period of training and learning required to enable a new inspector to carry out his duties effectively is five years. Even university graduates (including chartered accountants and members of other recognized associations) must undergo this long period of training, in view of the great variety and complexity of the problems.

New inspectors who have not come up through the caisses populaires movement are first given training assignments of a week to a month in one or several caisses populaires in order to familiarize themselves with the act, regulations, procedure, bookkeeping methods, accounting, administration, etc. This assignment prepares and facilitates their professional training. Specialized inspectors then take over the training of the new inspectors, and work with them for a certain period of time.

The hiring of a considerable staff within



The rapid increase in the number of officers
populatives and the substantial growth of the agents
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the oldest populatives movement and first given training
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training. Specialized inspectors then work over the
training of the new inspectors and work with them



1 a relatively short time created a difficult problem of
2 training and teaching, and a number of necessary measures
3 were taken to cope with the situation:

- 4 1. Annual convention of inspectors;
- 5 2. Monthly seminars;
- 6 3. Quarterly meetings of officers;
- 7 4. Manual of instructions and accounting.

8 1. Annual Convention of Inspectors

9 Professional training may be acquired, of
10 course, through daily contacts with more qualified
11 colleagues; it may also be acquired through study,
12 discussions, etc. These study conventions, lasting
13 three or four days, were first restricted to the
14 inspectors of the Federation, but were later extended
15 to the inspectors and propagandists of the affiliated
16 regional unions. Studies presented to a larger number
17 of professionals made for more interesting discussions
18 and provided better training.

19 This formula has proved very effective over
20 a period of some fifteen years.

21 2. Monthly One-Day Seminar

22 For various reasons which would be too
23 lengthy to discuss, the annual study convention was
24 profitably replaced a few years ago by monthly seminars
25 held in Quebec City and Montreal.

26 The programme varies from meeting to meeting.
27 Subjects of current interest are submitted for study.
28 Inspectors are divided into study groups of five or
29 six, with one of the inspectors acting as chairman
30 and secretary to note the decisions and report to the



1. Actual conversion of inspectors

2. Monthly seminars

3. Daytime meetings in winter

4. Work in connection with training

1. Actual conversion of inspectors

Professional training can be assigned, of

course, to the category of self-education.

colleagues; it may also be assigned through study.

Inspection, for example, is a continuous process.

three or four days, were then transferred to the

inspectors of the Region, but were later extended

to the inspectors and proprietors of the affiliated

national forces. Studies presented to a larger number

of professionals made for more interesting discussions

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2. Monthly One-Day Seminars

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The programme varies from meeting to meeting.

Subjects of current interest are submitted for study.

Inspectors are divided into study groups of five or

six, with one of the inspectors acting as chairman.

and responsible to take the decisions and report to the



1 general meeting on the conclusions reached by the group;
2 after a general study and discussion, the
3 draws the conclusions.

4 Two inspectors from the Quebec region usually
5 attend the Montreal seminar, and two inspectors from
6 Montreal attend the Quebec seminar. The inspectors
7 are selected on rotation so as to give every inspector
8 in the Quebec region an opportunity to meet the
9 Montreal group, and vice-versa. The two guests take
10 this opportunity to work for the whole week with their
11 colleagues in the other region. This is a good way of
12 enhancing the knowledge and practical experience of
13 each individual inspector through direct contact with
14 new and different problems. It also makes it possible
15 to standardize working methods and procedures.

16 The director of the department and his
17 colleagues attend these meetings but refrain as much
18 as possible from participating in the discussions.
19 Each month, a different inspector acts as chairman of the
20 meeting and the secretary is also different. Thus
21 everyone does his share of work.

22 3 - Quarterly Meetings of Officers

23 The rapid development of the movement and
24 the constantly expanding staff place increasing
25 responsibilities on the shoulders of the director of
26 the inspection department and his colleagues. Teamwork
27 is necessary to deal effectively with the many problems
28 that arise.

29 The director meets with the two deputies,
30 the two assistants, the officers in charge of the

general meeting on the 10th of November 1964 by the group
after a general study and discussion. The
shows the conclusions

Two thespians from the Quebec region usually
attend the Montreal seminar, and two thespians from
the Montreal region usually attend the Quebec seminar.
one selected on rotation so as to give every thespian
in the Quebec region an opportunity to meet the
Montreal group, and vice-versa. The two groups take
this opportunity to work for the whole week with their
colleagues in the other region. This is a good way of
expanding the knowledge and practical experience of
each individual thespian through contact with
new and different problems. It also means to parallel

The director of the department and his
colleagues attend these meetings and receive an such
as possible from participation in the discussions.
each month, a different thespian acts as chairman of the
meeting and has authority in this respect. This
everyone does his share of work.

3 - Quarterly meetings of different

The third component of the program and
the constantly expanding staff of the department
responsibilities on the shoulders of the director of
the inspection department and his colleagues. Therefore
is necessary to deal effectively with the many problems
The director must have the help of his
the two assistants, the officers in charge of the



1 permanent inspection of the central caisses and other
2 senior inspectors according to the needs. The group
3 is restricted to ten (10) members for purposes of
4 efficiency. The meeting is chaired by the person
5 designated by the group. The matters considered are
6 varied and chosen among the most controversial. Thus
7 an opportunity is provided for exchanging views on
8 professional matters and for finding happy solutions
9 to the problems of hiring, staff training, responsibility
10 sharing, human relations and planning.

11 4 - Manual and Accounting and Instructions

12 The matters discussed at the 1945 convention
13 of inspectors were again taken up at the 1950 convention
14 and have served as a basis for the "Manual of Accounting
15 and Instructions", which has been an important contri-
16 bution to staff training. Thus the inspection depart-
17 ment staff has been able to publish a manual containing
18 a summary of the current operations of the caisses
19 populaires in accordance with known and tried rules.
20 The manual is used by employees and officers of the
21 Federation, of the regional unions and of the caisses
22 populaires.

23 It has rendered great services judging from
24 the rising demand. It has become standard reference
25 work for directors, officers and employees.

26 (c) Training School - Staff Exchanges

27 Successive training assignments under the
28 direction of different colleagues for each programme,
29 enable the inspection department to function as a real
30 training school. Those qualified for audit work can



and should be prepared for any situation that may arise within the movement. An inspector may gain special notice for his competence and personal ability and be appointed manager of a caisse populaire, a union or a regional caisse. Six inspectors have thus been appointed to the management of various regional unions, and twenty-three to the management of caisses populaires. For ten years, the Fédération des Caisses populaires Desjardins had as its president a former inspector of the caisses populaires.

The Federation has thus become a source of personnel for the benefit of caisses populaires faced with staff problems.

(d) Development and Improvement of Methods

It has been impossible in recent years to inspect increasing numbers of caisses populaires with assets rising annually without proportionately raising the number of inspectors, in the light of past experience. This is shown by the following statistics:

Year	Number				Assets ¹ (millions)	Movement of	
	Inspectors	Caisses	Members	Borrowers		Funds	(mils.)
1932	4	165	40,933	12,363	\$ 9	\$	25 ²
1937	5	371	67,297	15,605	17 ³		39
1942	10	650	187,528	35,056	46		133
1947	28	1,011	486,836	75,452	198		770
1952	35	1,118	693,258	106,290	326		1,418
1957	46	1,174	994,599	153,650	569		2,620
1961	63	1,239	1,294,082	204,808	897		4,200

1. Including the regional and central caisses.
2. Figures supplied by the Provincial Bureau of Statistics.
3. Figures supplied by the Federation's Statistics Department.

and efforts to improve for any situation that may arise.

At present, the Commission is working on a plan for the management and personnel policy and for the management and personnel policy and for the management and personnel policy.

appointed manager of a central organization, a union or a regional office. Six inspectors have been appointed to the management of various regional offices and twenty three to the management of central organizations.

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Commission has as its president a former Inspector of the central organizations.

The Commission has thus become a source of personnel for the benefit of central organizations facing with staff problems.

(d) Development and Improvement of Methods

It has been impossible in recent years to inspect increasing numbers of central organizations with assets rising annually without proportionately raising the number of inspectors, in the light of past experience. This is shown by the following statistics:

Year	Inspectors	Central Organizations	Regional Organizations	Members	Employees	Assets
1981	88	1,288	1,288	1,288	1,288	1,288
1982	98	1,174	1,174	1,174	1,174	1,174
1983	108	1,148	1,148	1,148	1,148	1,148
1984	118	1,011	1,011	1,011	1,011	1,011
1985	128	988	988	988	988	988
1986	138	871	871	871	871	871
1987	148	758	758	758	758	758
1988	158	641	641	641	641	641
1989	168	528	528	528	528	528
1990	178	411	411	411	411	411
1991	188	298	298	298	298	298
1992	198	181	181	181	181	181
1993	208	68	68	68	68	68

1. Including the national and central offices.
2. Figures supplied by the Provincial Bureau of Statistics.
3. Figures supplied by the Regional Office.



In itself, the greater number of caisses populaires would justify the increased number of inspectors. Much more is involved however, as all other items show very substantial increases, quite apart from the new services to be provided. More striking, perhaps, is the progression shown by averages with a percentage based on the 1932 figures:

			Average Assets	Average number of members per caisse		
Number			per caisse			
Inspect-			Actual	As a%	Actual	As a %
Year	or	Caisses	figures of 1932	figures of 1932	figures of 1932	figures of 1932
1932	4	165	\$ 56,326 ¹	100%	244 ¹	100%
1937	5	371	40,354 ²	72%	183 ²	75%
1942	10	650	53,400	104%	288	118%
1947	28	1,011	174,453	310%	481	197%
1952	35	1,118	260,181	462%	625	256%
1956	44	1,160	400,192	710%	811	332%
1961	63	1,239	631,006	1,120%	1,046	429%

1. Figures supplied by the provincial Bureau of Statistics.

2. Figures supplied by the Federation's Statistics Department.

Despite this increasing development, it has been possible to ensure the effectiveness of inspection services and to protect the savings of the members and caisses populaires.

(e) Hiring

The recruitment of staff in wartime was not easy. Apart from the shortage of candidates, the financial resources of the Federation did not allow it to pay the salaries required to keep all the employees it would have hoped to keep on its staff.

Only a few years ago, the departure of one experienced inspector created a serious problem, as he



had to be replaced by a new employee. Today, in view of the greater number of experienced inspectors, it is easier to find a replacement. The problem of hiring adequate staff still remains difficult, however. The preference is given to commerce graduates who have majored in accounting, or to candidates with equivalent training either in public accounting, bank inspection, etc. Fifty per cent of the new inspectors come up through the ranks, that is to say from the local caisses populaires, from unions or from the regional caisses. This makes it possible to hire experienced people who will be useful in much shorter time than others, who may have a university degree, but are without practical experience.

2 - PRESENT STRUCTURE

(a) Improvement of the Service

The methods of inspection of the caisses populaires have been improved in the light of experience acquired over thirty years. The objectives of inspection are well defined, and go beyond book auditing. They are well in line with the thoughts often expressed by the genial pioneer of the Raiffeisen banks in Switzerland, the Rev. Jean Evangéliste Traber:

"Keep the law and the law will keep you".

These objectives may be summarized as follows:

- 1° - Auditing the books and documents in accordance with the usual professional techniques and procedures.
- 2° - Watching for infractions to the Act and



- 1 regulations.
- 2 30 - Analyzing the facts discovered to determine
- 3 their causes and suggest corrective measures.
- 4 40 - Discussing inspection results with the officers
- 5 of the society in order to:
- 6 (a) make them aware of their obligations;
- 7 (b) regularize anything that is not in order;
- 8 (c) make appropriate recommendations in the
- 9 interest of all concerned.
- 10 50 - Preparing an inspection report describing
- 11 the financial situation, and giving a summary
- 12 of audits and samplings, results obtained
- 13 and necessary recommendations.
- 14 The inspection procedure, without restricting
- 15 the inspector's choice - which professionally is his
- 16 sole responsibility - is as follows:
- 17 1 - Counting and checking the cash and valuables
- 18 in hand.
- 19 2 - Reconciling the accounts of the regional
- 20 caisses and of the banks and securing the
- 21 necessary confirmations.
- 22 3 - Adding up the balances of individual accounts
- 23 under capital, savings, loans and investments.
- 24 4 - Examining the vouchers, checking the entries
- 25 in the shareholders' passbooks against entries
- 26 in the individual accounts, sending confirm-
- 27 ations of their balance to the shareholders
- 28 and using other audit methods (checking,
- 29 verifying additions, etc.) through intelligent
- 30 samplings.

Instructions

- 1 - Analyzing the facts disclosed to determine their causes and suggest corrective measures.
- 2 - Discussing suggested results with one officer of the society in order to:
 - (a) make him aware of his obligations;
 - (b) regularize activities that he not in order;
 - (c) make appropriate recommendations for the interest of all concerned.
- 3 - Preparing an inspection report describing the financial situation and giving a summary of auditors and sample results obtained and necessary recommendations.
- 4 - The inspector's duties - which are essential in his role responsibility - is as follows:
 - 1 - Counting and checking the cash and valuables to hand.
 - 2 - Reconciling the accounts of the regional offices and of the bank and ensuring the necessary conditions.
 - 3 - Adding up the balances of individual accounts under capital, current, loans and investments.
 - 4 - Making up the vouchers, clearing the books in the shareholders' handbook, giving entries in the individual account, settling activities and of their balance to the shareholders and giving them audit vouchers (receipts).



- 5 - Establishing the situation to date as reflected in the general accounts and cash book and comparing with the figures for the previous year.
 - 6 - Verifying the loans granted against acknowledgements of debt, and controlling the sureties.
 - 7 - Applying the same procedures for loans secured by a mortgage or otherwise.
 - 8 - Analyzing outstanding loans or loans on which payments are outstanding, and noting the dubious or bad loans.
 - 9 - Verifying and analyzing the revenues and expenditures since the last inspection.
 - 10 - Verifying and analyzing investments.
 - 11 - Reading the minutes of general meetings and meetings of the board of management, supervisory board and credit committee, to see that there are no irregularities and that the decisions have been carried out.
 - 12 - Giving the manager and staff instructions with regard to needed adjustments and to the adoption of improved practices.
 - 13 - Holding a joint meeting of the members of the three boards or committees of the caisse populaire commission.
 - 14 - Writing the inspection report according to prescribed forms. The annual inspection and any other inspection is, of course, always made without warning.
- The inspection of the Caisses populaires



1	Verifying the statement of assets as reflected	1
2	in the general accounts and cash book and	2
3	comparing with the statement of the	3
4	trustee.	4
5	Verifying the statement of assets and	5
6	liabilities of the trust, and comparing the	6
7	same of debt, and comparing the statement.	7
8	Applying the same procedure for loans	8
9	secured by a mortgage or otherwise.	9
10	Analyzing outstanding loans or loans on	10
11	which payment are outstanding, and noting	11
12	the date of or due date.	12
13	Verifying and analyzing the revenues and	13
14	expenditures since the last inspection.	14
15	Verifying and analyzing investments.	15
16	Reading the minutes of general meetings and	16
17	resolutions of the board of management, supervising	17
18	board and credit committee, to see that there	18
19	are no irregularities and that the decisions	19
20	have been carried out.	20
21	Giving the trustee and staff instructions with	21
22	respect to needed adjustments and to the	22
23	adoption of improved methods.	23
24	Issuing a joint meeting of the trustees of	24
25	the trust, and of the board of management.	25
26	Organizing the committee.	26
27	Writing the inspection report according to	27
28	prescribed forms. The annual inspection	28
29	and any other necessary inspection should	29
30	be made without waiting.	30
31	The completion of the general inspection	31



1 Desjardins compares favourable with any other inspection
2 or audit, and is of the highest quality.

3 "In 1952, the manager of the Federation stated
4 in his annual report on the Federation's activities
5 that "our inspection system is not too strict". Members
6 of the staff of the caisses populaires need not take
7 offence at this, he added, but we intend to resort to
8 every conceivable and possible method of control. We
9 harbour no prior suspicion as to the honesty of
10 managers and employees of the caisses populaires, but
11 we wish to remove even the temptation of embezzlement
12 or fraud. As the saying goes, an ounce of prevention
13 is better than a pound of cure. Many people would never
14 yield to such a temptation if the occasion did not
15 arise.

16 Inspection, to be really effective should
17 be preventive. I should place much greater emphasis
18 on preventing and temptations than on the discovery
19 of serious and often irreparable offences.

20 (b) Present Structure

21 In 1960, with over 1,200 caisses populaires
22 in operation, a combined membership of 1,200,000 share-
23 holders and assets totalling \$650,000,000, we had to
24 redistribute the responsibilities and appoint two new
25 assistants in the inspection department, to help the
26 two previous ones who had been appointed deputies
27 to the director of the department. A deputy and an
28 assistant are employed in each of the Lévis and Montréal
29 offices.

30 A team of inspectors are completing the



In 1959, the manager of the Federation stated in his annual report on the Federation's activities that the inspection system is not the best of the staff of the various populations need not have offense at this, he added, but we found no reason to every conceivable and possible method of control. We harbor no prior suspicion as to the honesty of managers and employees of the various populations, but we wish to remove even the suggestion of espionage or fraud. As the saying goes, an ounce of prevention is better than a pound of cure. Many people would never yield to such a temptation if the occasion did not

Inspection, to be really effective should be preventive. I should place much greater emphasis on preventing and temptations than on the discovery of serious and often irreparable offenses.

(b) Present Situation

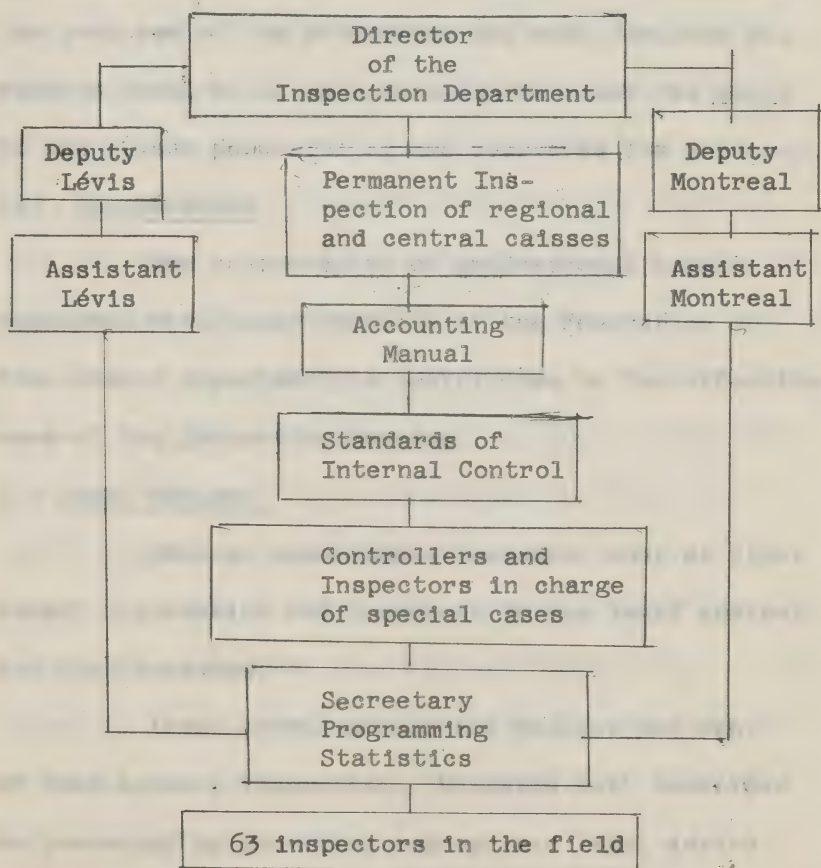
In 1960, with over 1,500 various populations in operation, a combined membership of 1,500,000 shareholders and assets totaling \$50,000,000, we had to reorganize the responsibilities and appoint two new assistants to the inspection department. To help the two previous ones who had been appointed deputies to the director of the department. A deputy and an assistant are employed in each of the Latin and Spanish

accounting manual, and reviewing the manual of instructions and the standards of internal control.

We also have inspectors assigned to special jobs such as that of comptroller in cases where the funds of a caisse populaire are endangered by inadequate administration or as a result of unforeseen events.

The permanent inspection of the regional or central caisses is now an accomplished fact; it was a necessity in view of the increasing volume of operations.

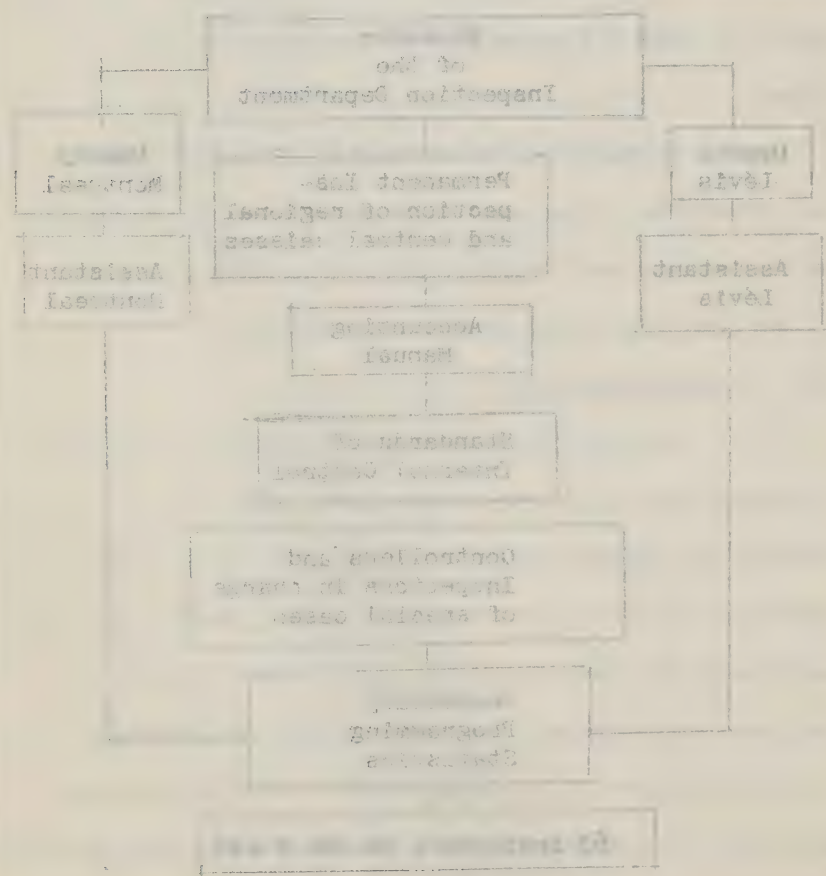
The present structure of the inspection department is illustrated by the following organization chart:



Total Staff: 75 professionals in addition to the internal staff directly or indirectly connected with the inspection department.



...the ... of the ...
... of internal control.
...
... as ... of ... in ...
... of ... are ...
... as a result of ...
...
... is now ...
... in view of the ...
...
The present structure of the inspection department is illustrated by the following organization chart:



Total Staff: 75 professionals in addition to ...



1 Controllers-Inspectors

2 When a caisse populaire is threatened with
3 losses due to an administrative error, a bad investment
4 or dishonesty on the part of one of its employees or
5 officers or for any other reason, the inspection
6 department will, if required, supply a professional to
7 assume temporary control of the caisse populaire or, if
8 necessary, of the business concern which is indebted
9 to the caisse populaire in order to help it reorganize
10 and repay its loans, so that no loss will be sustained
11 by the caisse populaire.

12 The controller-inspector, who is vested with
13 adequate powers, must try to find proper solutions to
14 the problems of the enterprise and must continue his
15 efforts until it is in a position to repay its debts
16 to the caisse populaire or has recovered its solvency.

17 (c) Co-operation

18 The co-operation of professional people
19 connected with other services of the Federation or
20 from sister organizations contributes to the effective-
21 ness of the inspection service.

22 1 - Legal Adviser

23 Even an experienced inspector must at times
24 submit information and documents to the legal adviser
25 for consideration.

26 Legal consultations are frequent and many
27 of them concern inspection. Mistakes must sometimes
28 be prevented by providing appropriate legal advice
29 before a particular transaction or operation. In other
30 cases, a practical solution must be found to a situation



Confidential Inspection

When a confidential informant is furnished with
 powers to act as an administrative officer, a full investigation
 of his activity in the field is the responsibility of
 the office in which he is assigned. The informant
 should be given a written statement of his assignment
 and the nature of the information he is to furnish.
 The informant should be given a copy of the statement
 and a copy of the information he is to furnish.
 and repay his loans, so that no loss will be sustained
 by the estate population.

The confidential-inspector who is vested with
 advance powers, must try to find proper solutions to
 the problems of the enterprise and must continue his
 efforts until it is a success in every way.
 to the estate population or has recovered its solvency.

(c) Co-operation

The co-operation of professional people
 connected with other members of the population or
 those state organizations connected to the effective-
 ness of the inspection service.

1 - Legal adviser

Even an experienced inspector must at times
 submit information and documents to the legal adviser
 for consideration.
 Legal consultations are frequent and many
 of them concern inspection. Matters must sometimes
 be prevented by providing appropriate legal advice
 before a final decision is made. The legal
 adviser is a professional person who is not a member



1 which may cause the caisse populaire a loss or other
2 difficulties. There is also the interpretation of the
3 Act and regulations, the settlement of conflicts, the
4 collecting of loan payments, legal proceedings, etc.

5 While it is true that the invaluable services
6 of a legal adviser extend far beyond the inspection
7 department, it must be recognized that the effective-
8 ness of inspection and the Federation's success in
9 reaching a satisfactory settlement, usually out of court,
10 of the many problems which have arisen are largely due
11 to the high quality of professional services supplied
12 by the legal adviser.

13 2 - The Regional Unions

14 An inspector-propagandist of the regional
15 union is generally assigned the task of applying the
16 necessary remedial measures in a caisse populaire,
17 such as replacing a manager, teaching and training
18 new employees, conducting checks to balance the books
19 and improve the procedure in such a way as to facilitate
20 the work of the staff or give effect to an inspection
21 report from the Federation, particularly if the matter
22 has been referred to him specifically, etc. In this
23 work, the Federation enjoys the co-operation of the
24 regional unions or regional caisses. Information is
25 constantly exchanged to prevent any duplication. Some
26 cases can be settled more easily by the regional union,
27 which is in closer contact with the caisse populaire.

28 (d) Conclusion

29 The inspection department of the Fédération
30 des Caisses populaires Desjardins is undoubtedly one of

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in fact. There is also the interpretation of the
and the interpretation of the cause.
While it is true that the inevitable sources
of a legal adviser extend far beyond the inspection
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2 - The Regional Union

An inspection-procedure of the regional
union is generally assigned the task of applying the
necessary remedial action in a cause population,
such as replacing a manager, teaching and training
new employees, conducting checks to balance the books
and improve the procedure in such a way as to rectify
the work of the state or give effect to an inspection
report from the Federation, particularly if the matter
has been referred to him specifically, etc. In this
work, the Federation enjoys the co-operation of the
regional unions or regional causes. Information is
constantly exchanged to prevent any duplication. Some
cases can be settled more easily by the regional union,
which is in closer contact with the cause population.

(4) Conclusion

The inspection system of the Federation is undoubtedly one of



1 the great security factors in the movement. It
2 contributes to the protection of shareholders and
3 depositors. It also protects the caisses populaires
4 themselves and their leaders by ensuring the enforcement
5 of the Act and regulations in accordance with the
6 spirit of the founder, Commander Alphonse Desjardins.
7 It provides for administration through the application
8 of security rules for the safeguard and proper use
9 of savings for purposes productive or beneficial to
10 the shareholders.

11 Inspection is a professional appraisal which
12 we try to carry out as thoroughly as possible. It is
13 a responsibility of the Fédération des Caisses populaires
14 Desjardins and is well accepted by the caisses populaires,
15 which realize its necessity for the best protection
16 of their savings.

18 2 - P R O T E C T I O N

19 (A) GENERAL PROTECTION

20 1 - Internal Control Standards

21 Along with the rapid development of the
22 Caisses populaires Desjardins movement, there has been
23 an increasingly rapid rise in the number of caisses
24 populaires with a staff of several employees. This has
25 created a need to consider problems of internal control.
26 It became necessary to allocate the work adequately
27 between the employees in order to clarify their
28 respective responsibilities.

29 The object of internal control is to organize
30 the distribution and carrying out of certain tasks



1 in such a way that two or more employees will be required
2 to perform them. The system which leaves room for
3 innumerable variations, is aimed at making embezzlement
4 or theft by an employee more difficult if not impossible
5 without the assistance of another employee. A parcel
6 of money, for instance, must always be prepared by two
7 employees who remain together throughout the operation.
8 Each employee watches the other and their signature
9 will serve to prove beyond any doubt that all of the
10 money was placed in the parcel, which is protected
11 by the usual seals. Similarly, a registered parcel
12 containing money and (or) valuables will always be
13 opened in the presence of two persons. If a shortage
14 is found, there will be two persons to certify the
15 fact. Thus the honesty of the employee will be proved.
16 On the contrary, if the parcel were opened by a single
17 person, that person might be suspected of stealing the
18 money even if not guilty. Lack of control is fatal.
19 The above examples of internal control are well known
20 to financial institutions.

21 An efficient distribution of duties according
22 to the various functions of the employees makes internal
23 control easier and also facilitates the work of daily
24 control. Finally, a rational division of duties and
25 the use of effective internal control standards are a
26 necessary supplement to regular inspection, apart
27 from their great usefulness for the general operation
28 of the caisse populaire.

29 The work done in this field has already produced
30 results which we hope to publish soon as a necessary



supplement to the accounting manual.

2 - Statistics and Office Machines

The statistics department of the Fédération des Caisses populaires Desjardins has been in existence since December, 1934. From that date, statistics from the affiliated caisses populaires have been compiled every six months, on June 30 and December 31 of each year, in order to provide needed information to the officers for the successful operation of the movement.

In June, 1957, the statistics department was equipped with IBM machines. Since then, statistics are compiled monthly and supplied to the officers and to all interested caisses populaires. As a means of helping the officers of local caisses populaires to manage their caisse more efficiently, the statistics department interprets their monthly report and translates it into some twelve control points; it also provides, for comparative purposes, the same control points weighted for the caisses populaires in their sector, in their area and for all the affiliated caisses populaires which indirectly make up the Federation. The complete list of control points is also supplied to each regional union manager to help him promote appropriate advice to the caisses populaires affiliated to his union.

A STUDY OF COMPARATIVE CONTROL POINTS

LA CAISSE POPULAIRE DE
Saint Ixte
Rimouski

NUMÉRO DE CAISSE		RAPPORT AU			
FÉDÉRATION	UNION RÉGIONALE	JOUR	MOIS	ANNÉE	
R-2345-U	987	28	2	61	

CODE

• RAPPORT MENSUEL EN RETARD - LES CHIFFRES DONNÉS SONT
POUR LE DERNIER RAPPORT REÇU
2 SECTEUR SEMI-URBAIN
4 SECTEUR URBAIN
9 SECTEUR RURAL



Nethercut & Young
Toronto, Ontario

108 -

Statistiques
généralles

Statistiques généralles	A LA FIN DU MOIS				AU COURS DU MOIS			
	LIQUIDITÉ EN POURCENTAGE				C O D E	VARIATION DE L'ÉPARGNE		
	OBLIGATIONS	EN CAISSE	TOTALE	CAPITAL SOCIAL VS ÉPARGNE		EN VALEUR		
						DIMINUTION	AUGMENTATION	
Votre caisse	41.35 %	17.08 %	58.43 %	8.9 %	4	- .38 %	\$ 9,811.83	\$
Votre secteur	31.81 %	18.88 %	50.69 %	7.7 %		1.21 %		613,740.
Votre union	33.44 %	20.24 %	53.68 %	7.1 %		.58 %		482,284.
La Fédération	31.84 %	19.34 %	51.18 %	7.5 %		1.15 %		7,089,985.

Remarques:

Statistiques
des prêts

Statistiques des prêts	A LA FIN DU MOIS				C O D E	AU COURS DU MOIS			
	POURCENTAGE DES PRÊTS TOTAUX					TAUX DE REMBOURSEMENT DES PRÊTS			
	EN NOMBRE		EN VALEUR			TAUX D'AUGMENTATION DES PRÊTS			
	SUR REC DE DETTE	SUR HYP	SUR REC DE DETTE	SUR HYP		SUR REC DE DETTE	SUR HYP	SUR REC DE DETTE	SUR HYP
Votre caisse	33.5 %	66.5 %	3.7 %	96.3 %		11.55 %	1.69 %	8.23 %	1.25 %
Votre secteur	51.3 %	48.7 %	12.6 %	87.4 %	4	8.94 %	1.94 %	9.23 %	2.29 %
Votre union	55.8 %	44.2 %	18.4 %	81.6 %		7.75 %	1.96 %	8.63 %	2.17 %
La Fédération	59.9 %	40.1 %	16.9 %	83.1 %		8.31 %	1.86 %	10.62 %	2.36 %

Remarques:

LE SERVICE DE LA STATISTIQUE

LA FÉDÉRATION DES CAISSES POPULAIRES DESJARDINS

CONSERVEZ CE RAPPORT

3 - All-inclusive Protection Policy

All the caisses populaires affiliated to the regional unions within the Quebec Federation are required under the by-laws to take out insurance against theft from the Société d'Assurance des Caisses populaires Desjardins. The latter issues and all-inclusive protection policy for a minimum amount set by the Federation:

OFFICIALS OF THE BOARD



Assets of the Caisse Populaire			Mininum Amount of Coverage
\$	A	\$	\$
	10,001	10,000	2,000
	20,001	20,000	2,250
	30,001	30,000	3,000
	40,001	40,000	3,800
	50,001	50,000	4,600
	60,001	60,000	5,400
	70,001	70,000	6,100
	80,001	80,000	6,900
	90,001	90,000	7,600
	100,001	100,000	8,500
	110,001	110,000	9,100
	120,001	120,000	9,800
	130,001	130,000	10,100
	140,001	140,000	10,600
	150,001	150,000	11,000
	160,001	160,000	11,300
	170,001	170,000	11,800
	180,001	180,000	12,200
	190,001	190,000	12,600
	200,001	200,000	13,000
	210,001	210,000	13,400
	220,001	220,000	13,800
	230,001	230,000	14,200
	240,001	240,000	14,600
	250,001	250,000	15,000
	260,001	260,000	15,400
	270,001	270,000	15,800
	280,001	280,000	16,200
	290,001	290,000	16,600
	300,001	300,000	17,000
	350,001	350,000	18,400
	400,001	400,000	19,600
	450,001	450,000	21,000
	500,001	500,000	22,200
	600,001	600,000	24,800
	700,001	700,000	27,400
	800,001	800,000	30,000
	900,001	900,000	32,400
	1,000,001	1,000,000	35,000
	1,200,001	1,200,000	40,000
	1,400,001	1,400,000	45,000
	1,600,001	1,600,000	50,000
	1,800,001	1,800,000	55,000
	1,800,001	et plus	60,000

This all-inclusive protection policy covers the caisse populaire against any loss resulting from:

1 - Any dishonest act committed by any of its employees either alone or in conjunction with others. The members of the three boards or committees of the caisse populaire are



UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Section	Subsection	Acres	Original Grant	Revised Grant
1	1	100.000	100.000	100.000
1	2	100.000	100.000	100.000
1	3	100.000	100.000	100.000
1	4	100.000	100.000	100.000
1	5	100.000	100.000	100.000
1	6	100.000	100.000	100.000
1	7	100.000	100.000	100.000
1	8	100.000	100.000	100.000
1	9	100.000	100.000	100.000
1	10	100.000	100.000	100.000
1	11	100.000	100.000	100.000
1	12	100.000	100.000	100.000
1	13	100.000	100.000	100.000
1	14	100.000	100.000	100.000
1	15	100.000	100.000	100.000
1	16	100.000	100.000	100.000
1	17	100.000	100.000	100.000
1	18	100.000	100.000	100.000
1	19	100.000	100.000	100.000
1	20	100.000	100.000	100.000
1	21	100.000	100.000	100.000
1	22	100.000	100.000	100.000
1	23	100.000	100.000	100.000
1	24	100.000	100.000	100.000
1	25	100.000	100.000	100.000
1	26	100.000	100.000	100.000
1	27	100.000	100.000	100.000
1	28	100.000	100.000	100.000
1	29	100.000	100.000	100.000
1	30	100.000	100.000	100.000
1	31	100.000	100.000	100.000
1	32	100.000	100.000	100.000
1	33	100.000	100.000	100.000
1	34	100.000	100.000	100.000
1	35	100.000	100.000	100.000
1	36	100.000	100.000	100.000
1	37	100.000	100.000	100.000
1	38	100.000	100.000	100.000
1	39	100.000	100.000	100.000
1	40	100.000	100.000	100.000
1	41	100.000	100.000	100.000
1	42	100.000	100.000	100.000
1	43	100.000	100.000	100.000
1	44	100.000	100.000	100.000
1	45	100.000	100.000	100.000
1	46	100.000	100.000	100.000
1	47	100.000	100.000	100.000
1	48	100.000	100.000	100.000
1	49	100.000	100.000	100.000
1	50	100.000	100.000	100.000
1	51	100.000	100.000	100.000
1	52	100.000	100.000	100.000
1	53	100.000	100.000	100.000
1	54	100.000	100.000	100.000
1	55	100.000	100.000	100.000
1	56	100.000	100.000	100.000
1	57	100.000	100.000	100.000
1	58	100.000	100.000	100.000
1	59	100.000	100.000	100.000
1	60	100.000	100.000	100.000
1	61	100.000	100.000	100.000
1	62	100.000	100.000	100.000
1	63	100.000	100.000	100.000
1	64	100.000	100.000	100.000
1	65	100.000	100.000	100.000
1	66	100.000	100.000	100.000
1	67	100.000	100.000	100.000
1	68	100.000	100.000	100.000
1	69	100.000	100.000	100.000
1	70	100.000	100.000	100.000
1	71	100.000	100.000	100.000
1	72	100.000	100.000	100.000
1	73	100.000	100.000	100.000
1	74	100.000	100.000	100.000
1	75	100.000	100.000	100.000
1	76	100.000	100.000	100.000
1	77	100.000	100.000	100.000
1	78	100.000	100.000	100.000
1	79	100.000	100.000	100.000
1	80	100.000	100.000	100.000
1	81	100.000	100.000	100.000
1	82	100.000	100.000	100.000
1	83	100.000	100.000	100.000
1	84	100.000	100.000	100.000
1	85	100.000	100.000	100.000
1	86	100.000	100.000	100.000
1	87	100.000	100.000	100.000
1	88	100.000	100.000	100.000
1	89	100.000	100.000	100.000
1	90	100.000	100.000	100.000
1	91	100.000	100.000	100.000
1	92	100.000	100.000	100.000
1	93	100.000	100.000	100.000
1	94	100.000	100.000	100.000
1	95	100.000	100.000	100.000
1	96	100.000	100.000	100.000
1	97	100.000	100.000	100.000
1	98	100.000	100.000	100.000
1	99	100.000	100.000	100.000
1	100	100.000	100.000	100.000

This all-inclusive reservation policy covers the entire population against any loss resulting from any disaster and committed by any of the employees either alone or in conjunction with others. The members of the third party are the beneficiaries of the entire population are



- 1 also covered.
- 2 2 - Burglary, theft, house breaking, armed
3 robbery, petty theft and damage or destruction
4 resulting therefrom.
- 5 3 - Burglary, theft, house-breaking, armed robbery,
6 petty theft within Canada under the custody
7 of any of its employees or of any other person
8 appointed as its agent under a resolution of
9 the board of management, or of any person
10 employed in a railway express department or
11 in the Canadian Post Office.
- 12 4 - Any damage except damage caused by fire to
13 the premises, furniture, office equipment,
14 safes, strong boxes, vaults or security boxes,
15 caused by burglary, theft, house-breaking,
16 armed robbery, petty theft, or attempts at
17 such actions, when the insured party is the
18 owner of the said goods or objects or is legally
19 responsible for their custody.
- 20 5 - Forgery or alternation of or upon any trade
21 bill or document in connection with the
22 signature of the insured party or of a share-
23 holder only, in the capacity of payer or
24 beneficiary, or in connection with an increase
25 in the payable amount, as a result of which
26 the insured party was induced, while the policy
27 was in force, to extend any credit or give
28 out anything of value.
- 29 6 - Burglary, theft, house-breaking, armed robbery,
30 petty theft and their risks (except the risk



also known

Postmaster, with some other name

robbery, theft and damage to property

criminal

Barclay, local, house-breaking, armed robbery

petty theft within Canada under the custody

of any of its employees or of any other person

appointed as the agent under a resolution of

the board of management, or of any person

employed in a railway express department or

in the Canadian Post Office.

Any damage except damage caused by fire to

the premises, furniture, office equipment,

sales, strong boxes, vaults or security boxes,

except in cases of fire, explosion,

armed robbery, petty theft, or attempts at

theft, or actions, when the insured party is the

owner of the said goods or objects or is legally

responsible for their custody.

Forgery or alteration of or upon any drafts

bill or document in connection with the

signature of the insured party or of a share-

holder only, in the capacity of payer or

beneficiary, or in connection with an increase

in the payable amount, as a result of which

the insured party was induced, while the policy

was in force, to extend any credit or give

out anything of value.

Insured party, under contract, armed robbery

and theft, this contract, in the



of theft by employees of the senders or addressees) in connection with the use of registered mail or express service, to send money or negotiable assets in which the insured party has an interest, financial or otherwise, while the said property is in transit within Canada.

A caisse populaire may raise the amount of its protection under one, several or all items as necessary.

4 - Floating Security Bond

In addition to the all-inclusive protection policy, the Fédération des Caisses populaire Desjardins maintains for the benefit of the affiliated caisses populaires a \$10,000 floating security bond covering every employee and officer of all caisses populaires which are members of the affiliated regional unions.

5 - Security Bond

In 1948, the Fédération des Caisses populaires Desjardins set up a security fund, the object of which is to give added protection to an affiliated caisse populaire in the event of loss arising from theft, embezzlement or a bad loan, over and above the amount of the all-inclusive protection policy or of the reserves proper of the classe populaire.

Loans from the security fund are granted on the condition that such financial assistance will enable the caisse populaire to remain in operation, while refunding the loan on a long term basis and paying a small interest from its future net surpluses.



At the time of the outbreak of the disease, the Government of the United States was not aware of the fact that the disease was being spread by the rats.

It is not known whether the disease was spread by the rats or whether it was spread by the rats and the rats were the only source of the disease.

A series of experiments was conducted in 1905 to determine whether the disease was spread by the rats. The results of these experiments are given in the following table.

II - Rats and the Disease

In addition to the experiments mentioned above, the Government of the United States conducted a series of experiments in 1905 to determine whether the disease was spread by the rats. The results of these experiments are given in the following table.

In 1905, the Government of the United States conducted a series of experiments to determine whether the disease was spread by the rats. The results of these experiments are given in the following table.

Post-mortem examination of a rat which died of the disease showed that the rat was infected with the disease. The results of these experiments are given in the following table.

It is not known whether the disease was spread by the rats or whether it was spread by the rats and the rats were the only source of the disease. The results of these experiments are given in the following table.



At March 31, 1962, the assets of the security fund stood at \$708,379.58 as shown in the following financial statement:

ASSETS AT MARCH 31, 1962

INVESTMENTS: (Nominal value: \$460,000) \$456,238.90

<u>LOANS:</u>	<u>DATE</u>	<u>RATE</u>	<u>ORIGINAL AMOUNT</u>	<u>PAYMENT IN 1961-62</u>	<u>BALANCE</u>
Normandin	(C) 23-12-52	1%	\$ 20,500.00	\$ 125.00	\$18,667.21
St-Urbain	(Q) 28-1-53	1%	5,000.00	957.72	0
St-Alphonse de Rodriguez	(J) 9-6-53 ½ de 1%		33,000.00	500.00	29,000.00
St-Ls de l'Ile aux Coudres	(Q) 10-2-55 ½ de 1%		7,000.00	200.00	5,800.00
St-Roch d'Or- ford	(S) 2-5-55	1%	9,367.03	2,000.00	5,367.03
Ste-Marguerite de Lingwick	(S) 31-1-55	1%	10,000.00	0	10,000.00
New-Richmond	(Q) 23-1-59 ½ de 1%		15,127.78	65.00	14,762.78
			<u>TOTAL:</u>	<u>\$ 3,847.72</u>	<u>\$83,597.02</u>

SINKING FUND

St-Andre de Restigouche	(R) 15-8-58	\$ 18,500.00	\$ 1,850.00	\$12,950.00
		27,743.14	2,500.00	22,500.00
Clericy	(OQ) 31-12-59	<u>TOTAL:</u>	<u>\$ 4,350.00</u>	<u>\$35,450.00</u>

GRAND TOTAL: 119,047.02

CASH IN HAND: (On deposit C.C.D. L.)
134,043.66

TOTAL ASSETS: \$709,379.58

All caisses populaires affiliated to the regional unions in the province contribute to the security fund, except those affiliated to the Montreal regional union which separately operates and administers a similar fund with assets of \$172,622.40 at August 31, 1961, of which an amount of \$47,745.97 was on loan.

As March 31, 1960, the assets of the security

stood at \$708,579.58 as shown in the following

financial statement:

ASSETS AT MARCH 31, 1960

ACCOUNT	DATE	AMOUNT	PERCENT	AMOUNT	PERCENT
STOCKS	(C) 28-12-53	12	2	\$ 20,500.00	2
BONDS	(C) 28-1-54	12	2	5,000.00	
GOVERNMENT SECURITIES	(C) 2-2-55	12	2	23,000.00	
STOCKS	(C) 10-2-55	12	2	7,000.00	
BONDS	(C) 2-2-55	12	2	3,327.03	
GOVERNMENT SECURITIES	(C) 21-1-55	12	2	10,000.00	
STOCKS	(C) 22-1-55	12	2	15,127.78	
BONDS				57.00	
TOTAL				\$ 708,579.58	

STOCKS

STOCKS	(C) 28-12-53	12	2	\$ 20,500.00	2
BONDS	(C) 28-1-54	12	2	5,000.00	
GOVERNMENT SECURITIES	(C) 2-2-55	12	2	23,000.00	
STOCKS	(C) 10-2-55	12	2	7,000.00	
BONDS	(C) 2-2-55	12	2	3,327.03	
GOVERNMENT SECURITIES	(C) 21-1-55	12	2	10,000.00	
STOCKS	(C) 22-1-55	12	2	15,127.78	
BONDS				57.00	
TOTAL				\$ 708,579.58	

CASH IN HAND

on deposit C.O.D. 1.1

TOTAL ASSETS

All assets registered and listed to the

regional unions in the province contribute to the

security fund, except those allotted to the national

regional union which separately operates and maintains

a separate fund with assets in the amount of \$1,145.00 as of 1960.



1 * The security fund is supplied by a 10 per
2 cent deduction on annual contributions paid by the
3 caisses populaires to their regional union. This
4 amount is paid to and administered by the Fédération
5 des Caisses populaires Desjardins.

6 (B) PHYSICAL PROTECTION

7 1 - Safes and Vaults

8 The Société d'Assurance des Caisses populaires
9 Desjardins is constantly conducting laboratory analyses
10 with distinguished metallurgists specialized in this
11 field, to discover the most effective protective equip-
12 ment against burglary. Approval is given for the
13 purchase of only the finest equipment: vault doors,
14 safes of all kinds, burglar-proof chests, strong boxes,
15 etc. As soon as a caisse populaire has reached a certain
16 degree of development, it is asked to equip the doors
17 of vaults and safes with a regular or delayed action
18 time lock. An increasing number of caisses populaires
19 are equipped with special doors with delayed action
20 burglar-proof time lock. Vaults are built according
21 to the specifications of the Société d'Assurance des
22 Caisses populaires Desjardins which are much more
23 exacting than those of the Canadian Underwriters
24 Association. The walls must have a minimum thickness
25 of 15 to 18 inches and be made of concrete with a
26 6,000 pound pressure resistance and first quality steel
27 reinforcement.

28 The caisses populaires and the regional
29 caisses are often approached by the Fédération des Caisses
30 populaires Desjardins, the regional unions, the inspectors



... amount is paid to and administered by the ...
... des Calais population ...

(B) PHYSICAL PROTECTION

1 - Gates and Walls

... with distinguished metallurgists specialized in this
field, to discover the most effective protective equip-
ment against burglary. Approval is given for the
purchase of only the finest equipment: vault doors,
safes of all kinds, burglar-proof chests, strong boxes,
etc. As soon as a Calais population has received a certain
degree of development, it is asked to equip the doors
of vaults and safes with a regular or delayed action
alarm lock. An increasing number of Calais communities
are equipping their vault doors with delayed action
locks. ...
to the specifications of the ...
Calais populations ...
except for those in the ...
Association. The ...
of 15 to 20 inches and be made of ...
6,000 pound pressure resistance and must qualify steel



1 and the Société d'Assurance des caisses populaires
2 and urged to improve their protective equipment if
3 necessary.

4 2 - Alarm Systems

5 The best of electronic alarm systems are
6 of current use in the main offices. Most other caisses
7 populaires use a wide variety of proven systems with
8 satisfactory results.

9 3 - Armed Guards and Special Investigators

10 Over 100 caisses populaires have armed guards
11 who keep constant watch over the office during business
12 hours. The guards are adequately protected and carry
13 the necessary weapons. They are specially trained
14 for the job.

15 The Société d'Assurance des Caisses populaires
16 Desjardins also has special investigators or detectives
17 who are constantly on the alert to prevent attacks
18 or to lend a hand anywhere in the province in case of
19 need. They co-operate closely with regular police
20 forces.

21 These supplementary protective measures
22 have become necessary in view of the unhappy experience
23 of the past few years.

24 The Caisses populaires Desjardins have an
25 excellent system of protection against all types of
26 robbery, if not the best.

27 III - Assets

28 The policy of the Caisses populaires
29 Desjardins concerning loans and investments is usually
30 the same notwithstanding the size or the location of the



and the British Government has certain responsibilities
and urged to improve their protective equipment if
necessary.

2 - Air Force

The best of electronic alarm systems are
of current use in the main office. Most other offices
population use a wide variety of alarm systems with
satisfactory results.

3 - Armed Forces and Civilian Population

Over 100 civilian populations have armed guards
who keep constant watch over the office during business
hours. The guards are adequately protected and carry
the necessary weapons. The British Government
for the day.

The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary. The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary. The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary.

The British Government has certain responsibilities
and urged to improve their protective equipment if
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The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary. The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary. The British Government has certain responsibilities
and urged to improve their protective equipment if
necessary.

4 - Air Force

The best of electronic alarm systems are
of current use in the main office. Most other offices
population use a wide variety of alarm systems with
satisfactory results.



1 *caisse populaire.*

2 (a) Loans

3 Assuming that the risks are equal, priority
4 is always given to small loans. The *caisse populaire*
5 therefore deals primarily in small personal loans. If
6 it has sufficient financial resources, it grants larger
7 loans, either against a "*reconnaissance de dette*" or
8 a mortgage.

9 Loans to the shareholders usually represent
10 50 per cent of assets. In the average *caisse populaire*,
11 the loans are distributed on the basis of approximately
12 $\frac{1}{3}$ personal loans against a "*reconnaissance de dette*"
13 and $\frac{2}{3}$ mortgage loans. With the development of the
14 *caisses populaires*, the total amount allocated to small
15 loans gradually drops in relation to the assets, and
16 conversely, the portion used for mortgage loans or loans
17 to institutions rises considerably. See the section
18 on statistics, page 151 - 154.

19 (b) Investments

20 Bond investments are an important part of
21 the general liquidity of the *caisses populaires* which
22 is presently set at 50 per cent of liabilities. Bond
23 holdings usually represent 35 per cent of assets. The
24 size of loans in relation to assets is shown in the
25 statistics section, pages 151 to 154.

26 The amount of the assets varies according
27 to the amounts paid on shares and deposited in savings
28 accounts, to which are added the reserves proper of
29 the *caisse populaire*. See the statistics section -
30 position of local *caisses populaires* - page 154 - 185.



I - CASH ON HAND AND LIQUID RESERVES

(a) A Study of Percentage Ratios

The immediate liquidity, commonly known as the cash liquidity, is maintained at 1 per cent of liabilities and distributed as follows:

10 per cent on deposit with the regional or central caisse, 5 per cent cash on hand including cheques and payment orders drawn on other institutions.

See statistics section - Series X - pages, 185, 187 and 189.

(b) Money in Hand

The money in hand included in the cash liquidity may be greater or smaller according to the transactions of the shareholders. Any surplus is deposited with the regional or central caisse, or exceptionally with a chartered bank or trust company.

The cash liquidity is increased when deposits (capital and savings) of the shareholders are greater than the withdrawals, when the repayments by the borrowers are greater than the amount of loans granted, and (Or) when the cashing on maturity bonds or the possible sales of bonds held in the portfolio is greater than purchases.

The caisse populaire then has a choice, inasmuch as the general liquidity is adequate and according to the volume of acceptable loan applications, between

1 - loaning to the shareholders or

2 - investing in bonds

Conversely, the liquid assets drop when



The immediate liquidity, currently known as
the cash liquidity, is maintained at 1 per cent of
the total assets of the bank.
In part on deposit with the regional
or central banks, 1 per cent cash on hand
to other banks, and
to other institutions.

See statistical section - Section X - pages 187, 188 and

(b) Money in hand

The money in hand consists of the cash
liquidity key as granted as outlined according to the
transmission of the shareholders. Any surplus is deposited
with the regional or central banks, or proportionally
with a shareholder bank or from treasury.

The cash liquidity is increased when deposits
(savings and savings) of the shareholders are greater
than the withdrawals, when the deposits of the
shareholders are greater than the amount of loans granted,
and (or) when the lending on security basis is less

than the amount of deposits on the same basis.

The central banks in the case of a deficit, in
accordance with the general principle of advance and borrowing
to the extent of necessary, can be obtained, however



1 withdrawals (capital and savings) of the shareholders
2 are greater than the deposits, when bond purchases are
3 greater than maturing bonds or bond sales.

4 The caisse populaire must then protect its
5 general liquidity and also the cash liquidity by the
6 following usual methods:

- 7 1 - activate the recovery of current loans;
- 8 2 - stop loaning large amounts as a first step;
- 9 3 - stop loans completely if necessary;
- 10 4 - stop purchasing bonds, even with the
11 proceeds from maturing bonds;
- 12 5 - sell bonds or borrow against bonds if
13 the sale of such bonds involves a heavy
14 loss of capital.

15 (c) General Liquidity

16 The required liquidity is determined by the
17 Fédération des Caisses populaires Desjardins, accordance
18 with its affiliated regional unions. Changes in
19 liquidity standards are rather unusual, as we are more
20 interested in helping and protecting the shareholders
21 than in making profits.

22 The percentage of liquidity has been as
23 follows:

24 Up to the second World War - 3 per cent.

25 From the end of the second World War (1946)
26 to date - 50 per cent.

27 Prior to 1960, liquidity was determined on
28 the basis of assets. Since 1960, it has been based
29 on liabilities less loans, the loans being deducted
30 from the cash liquidity or from investments.



...the grosser than the deposit...
 ...The entire population...
 ...the sale of such bonds involves a heavy
 loss of capital.

(c) General Liquidity

The required liquidity is determined by the
 Fédération des Caisses populaires québécoises, association
 with the affiliated regional unions. These are
 liquidity standards are rather unusual, as we are more
 interested in helping and protecting the entrepreneurs
 when in making profits.
 The percentage of liquidity has been as

...up to the second World War - 5 per cent.
 From the end of the second World War 1945,
 to date - 30 per cent.
 Prior to 1945, liquidity was determined on
 the basis of assets. Since 1960, it has been based
 on liabilities less loans. The same thing happened
 from the first liquidity to the second.



1 However, regional unions are free to adjust
2 the liquidity ratio according to particular cases.

3 Without changing the official percentages,
4 the authorities often stress the need for caution in
5 the Revue Desjardins and in circular letters. Inspection
6 reports always point out in fractions to the liquidity
7 rules. Steps are taken to ensure that the caisses
8 populaires maintain the required liquidity.

9 2 - INVESTMENTS

10 (a) General Criteria

11 General criteria must take account of the
12 bonds authorized by the Act. They are aimed at ensuring
13 a strong percentage of easily negotiable securities..

14 As a result, the portfolio of a caisse
15 populaire almost invariably includes Government of
16 Canada bonds and province of Quebec bonds. These are
17 followed by bonds issued by municipalities, cities
18 and towns and school boards, and finally, bonds issued
19 by "fabriques", hospitals and religious orders.

20 The purpose of the second distribution is to
21 promote the purchase of short-term bonds, which are
22 more easily realized in periods of tight money. Moreover,
23 there is the assurance that the capital will be completely
24 refunded at maturity, whereas it is not always possible
25 to keep a long-term bond; selling in unfavourable
26 market conditions may cause considerable losses. The
27 caisses populaires are increasingly investing in
28 Government of Canada treasury bills.

29 Maturity dates on the bonds purchased are
30 spread over a maximum period of ten years; it is only

However, regional units are free to address

The Ministry of Finance is responsible for

financial management of the Government of Canada

The authorities often discuss the need for action in

the Reserve Department and in various sectors. In addition

reports always point out in fact that the Ministry

rules. Steps are taken to ensure that the various

departments maintain the same standards

2 - INVESTMENTS

(a) General Criteria

General criteria must take account of the

bonds authorized by the Act. They are aimed at ensuring

a strong percentage of easily negotiable securities.

As a result, the portfolio of a estate

portfolio almost invariably includes Government of

Canada bonds and provinces of Quebec bonds. There are

followed by bonds issued by municipalities, cities

and towns and school boards, and finally, bonds issued

by "corporations", companies and religious bodies.

The purpose of the second distribution is to

promote the purchase of short-term bonds, which are

more easily realized in various situations. However,

there is the assurance that the capital will be capital

returned at maturity, whereas it is not always possible

to keep a long-term bond; selling in circumstances

where the value of the bond is less than the purchase price.

Various portfolios are increasingly invested in

Government of Canada Treasury bills.

Priority given to the funds provided for

spread over a maximum period of ten years; it is only



1 in exceptional circumstances that the ten-year term may
2 be somewhat extended.

3 Finally, a caisse populaire is not allowed
4 to purchase longest term bonds from an issue when a
5 substantial amount is to become payable at that date,
6 thus making a re-financing necessary. As we cannot
7 know what market conditions will be ten years hence,
8 we do not make such purchases.

9 (b) Liquidity of Investments

10 1 - By category:

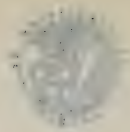
11 Suggested Distribution

12	1 - Canada	15%	
13	Province of Quebec	<u>15%</u>	30%
14	2 - Municipalities,		
15	cities, towns,		
16	school boards		50%
17	3 - Fabriques,		
18	Hospitals,		
19	religious orders	<u>20%</u>	
20		<u>100%</u>	

21 Present Distribution

22 (a) Caisses populaires

23 Hereunder is the distribution of investments
24 made by the caisses populaires affiliated to the Montreal
25 and Chicoutimi regional unions at the end of the fiscal
26 year 1961. The two regional unions then included
27 approximately 40 per cent of all caisses populaires,
28 and their affiliates held 40 per cent of the total
29 portfolio of local caisses populaires:
30



to be extended and it is not possible to extend the term of the
 bonds at present.

Finally, a cessate population is not allowed
 to purchase long-term bonds from an issue when a
 substantial amount is to become payable at that date,
 thus making a re-financing necessary. As we cannot
 know what market conditions will be ten years hence,
 we do not make such purchases.

(b) Municipalities

1 - Municipalities

Province of Quebec

308	Province of Quebec
2 - Municipalities, cities, towns, school boards	
208	
3 - Hospitals, Hospitals	
208	
208	

Other Municipalities

(c) Cessate populations

Hereunder is the distribution of investments
 made by the cessate populations affiliated to the Montreal
 and Chateaufort regional unions at the end of the fiscal
 year 1961. The two regional unions then included
 approximately 40 per cent of all cessate populations,
 and their affiliates held 40 per cent of the total
 portfolio of local cessate populations:



<u>Bonds</u>	<u>Value</u>	<u>Percentage</u>
Government of Canada or guaranteed by same	\$ 7,768,450	8.8%
Province of Quebec guaranteed by same	10,922,400	12.4%
Municipalities and school boards	60,843,815	68.9%
Religious orders and non commercial institutions	8,735,600	9.8%
	<u>\$ 88,270,265</u>	<u>100.0%</u>

(b) National or Central "caisses"

Distribution of Investments in ten (10)
Regional or Central caisses at the end of
their Fiscal Year 1961

<u>Bonds</u>	<u>Value</u>	<u>Percentage</u>
Government bonds	\$ 100,000	0.2%
Government of Canada or guaranteed by same	11,752,489	21.7%
Province of Quebec or guaranteed by same	14,780,061	27.3%
Municipalities and school boards	20,763,870	38.4%
Religious orders and non commercial institutions	6,659,970	12.3%
Other institutions	60,312	0.1%
	<u>\$ 54,116,702</u>	<u>100.0%</u>

2 - By Date of Maturity

Suggested Distribution

dans 1 an	10%
" 2 ans	10%
" 3 "	10%
" 4 "	10%
" 5 "	10% avant 5 ans 50%
dans 6 ans	10%
" 7 "	10%
" 8 "	10%
" 9 "	10%
" 10 "	10% 6 à 10 ans 50%

Total: 100%

100%



Nethercut & Young

A 121 -

Toronto, Ontario

Present Distribution

(a) Caisses populaires

In referring to the liquidity of investments, we place much weight on the distribution of maturity dates for such investments.

As an example, the following table shows the maturity dates of investments, at August 31, 1960, in the 278 caisses populaires affiliated to the Montreal regional union.

<u>Maturity date</u>	<u>Value</u>	<u>Percentage</u>
De sept. à déc. 1960	\$ 6,078,000	9.0%
en 1961	9,133,275	13.5%
1962	10,215,325	15.1%
1963	9,101,425	13.4%
1964	7,164,425	10.6%
1965	6,727,375	9.9%
1960 - 1965		71.5%
1966 - 1970	14,232,775	21.0%
1971 et plus	5,101,600	7.5%
TOTAL:	<u>\$ 67,754,200</u>	<u>100.0%</u>

(b) Regional or Central Caisses

An analysis of the investment portfolio of ten (10) central caisses at the end of their 1961 fiscal year showed the following maturity terms:

<u>Maturity Term</u>	<u>Value</u>	<u>Percentage</u>
de 1 à 5 ans	\$ 35,863,129	66.0%
de 6 à 10 ans	13,505,017	24.9%
de 11 ans et plus	4,962,871	9.1%
TOTAL:	<u>\$ 54,331,017</u>	<u>100.0%</u>



Investment Distribution

(a) Global Investments

In relating to the liquidity of investments, we place much weight on the distribution of maturity dates for such investments. As an example, the following table shows the maturity dates of investments, as August 31, 1980, in the 378 common portfolios affiliated to the company.

<u>Maturity Date</u>	<u>Value</u>	<u>Percentage</u>
De sept. 1 1980 - 1980	\$ 6,078,000	6.0%
De 1981	8,133,375	14.0%
1982	10,018,315	16.7%
1983	9,101,885	15.1%
1984	7,199,485	10.6%
1985	8,787,325	9.9%
1986 - 1989		71.2
1986 - 1970	14,332,775	21.0%
1971 et plus	2,101,000	3.2%
TOTAL:	\$ 67,454,260	100.0%

(b) Regional or Central Countries

An analysis of the investment portfolio of the (10) central offices at the end of their 1981 fiscal year showed the following maturity distribution:

<u>Maturity Term</u>	<u>Value</u>	<u>Percentage</u>
De 1 a 5 ans	\$ 35,000,129	68.0%
De 5 a 10 ans	13,321,017	25.0%
De 11 ans et plus	4,032,914	7.4%
TOTAL:	\$ 52,354,060	100.0%



1 (c) Direct Acquisitions

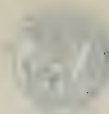
2 Bond transactions, purchases and sales are
3 generally made through brokers. Local caisses populaires,
4 however, will in most cases negotiate such transactions
5 through their regional caisse. Direct bond purchases
6 are scarce and always for relatively small amounts.
7 They usually concern issues from institutions remote
8 from centres where there is a caisse populaire, but
9 which are hard to sell on the market. Besides, marketing
10 cost would be prohibited. The local caisse populaire
11 makes an agreement with the regional or central caisse
12 to share the bond issue.

13 (d) Sale before Maturity

14 Sales of bonds before maturity are relatively
15 infrequent. Caisses populaires do not speculate, and
16 exchanges sometimes produce more disappointment than
17 profit. However, circumstances sometimes make it
18 necessary to sell bonds to realize the money. Such
19 sales are almost invariably transacted through the
20 regional or central caisse. There may also be exchanges
21 of low interest bonds, to be replaced with other bonds
22 with a better yield or more readily negotiable. An
23 immediate loss of capital is sometimes written off by
24 a net gain from a current rate of interest.

25 It is the general policy to purchase bonds
26 and keep them until maturity, even if they have to be
27 used temporarily as collateral for a loan.

28 In the year 1961, investments redeemed for
29 cash in the local caisses populaires only amounted to
30 \$40,924,000.



From the point of view of the public and other generally made through banks. Local issues, however, will in most cases involve such transactions and are always for relatively small amounts. They usually concern issues from institutions remote from centers where there is a large population, but which are hard to sell on the market. Besides, marketing cost would be prohibitive. The local issues population makes an agreement with the national or central office to share the bond issue.

(b) Safe before maturity

Sales of bonds before maturity are relatively infrequent. Issues populations do not appreciate and exchanges sometimes produce more disadvantages than necessary to sell bonds to realize the money. Such sales are almost invariably contracted through the regional or central office. There may also be exchange of low interest bonds, to be replaced with other bonds with a better yield or more readily negotiable. An immediate loss of capital is sometimes suffered by a net gain from a current rate of interest. It is the general policy to purchase bonds and keep them until maturity, even if they have to be used temporarily as collateral for a loan.

In the year 1961 investments received for cash in the local issues population only amounted to \$40,000,000.



e) Investments Authorized by Law

Under Section 40 of the Quebec Co-operative Syndicates Act, caisses populaires are authorized to purchase the following types of bonds:

Government of Canada

Province of Quebec

Fully guaranteed by the government of Canada or the Province of Quebec

or within the province of Quebec:

municipalities

school corporations

construction or repair of churches
presbyteries or cemeteries

"fabriques"

ecclesiastical or religious
corporations

Investments in real estate within the province or on a first privilege or first hypothec to an amount not exceeding three-fifths of the municipal evaluation of the real estate affected.

This section of the Act has made it possible to ensure the security of savings thus invested.

f) Prior Authorization from the Federation

The purchase of bonds is the responsibility of the board of management of the caisse populaire or of the regional or central caisse, as the case may be. However, investments can be made only with the prior approval of the Federation.

This requirement is of primary importance. For the majority of directors of caisses populaires, investments are difficult to appraise. Even those among



1. Investment in Real Estate

2. The purpose of this section is to provide for the

3. investment of funds in real estate by the

4. Government of Canada.

5. Government of Canada

6. Province of Quebec

7. Fully guaranteed by the Government of
8. Canada or the Province of Quebec

9. or within the Province of Quebec:

10. (a) Investment in Real Estate

11. (b) Investment in Real Estate

12. construction or repair of churches
13. or other religious buildings

14. (c) Investment in Real Estate

15. ecclesiastical or religious

16. buildings

17. Investments in real estate within the Province

18. or on a first mortgage or first hypothec to an amount

19. not exceeding three-fifths of the market value

20. of the real estate affected.

21. This section of the Act may be amended or repealed

22. to ensure the security of savings when invested.

23. (2) Prior Authorization from the Government

24. The purchase of bonds is the responsibility

25. of the board of management of the corporation or of

26. the regional or central office, as the case may be.

27. However, investments can be made only with the

28. approval of the Government.

29. This requirement is an important safeguard

30. for the security of savings invested.

31. Investments in real estate are subject to the same



1 them who have the theoretical training needed do not
2 always have the practical knowledge specifically
3 required in a given instance.

4 The Federation therefore examines the various
5 types of bonds that are contemplated. Its study covers
6 the following points:

7 1 - Legal permissibility

- 8 a) class allowed under the law
- 9 b) legal borrowing powers of borrowing
10 corporations
- 11 c) regularity of the fiduciary instrument
 and of the issuing and borrowing procedure.

12 2 - Solvency

- 13 a) analysis of present financial statements
- 14 b) comparative study of financial statements
- 15 c) study of prospectus
- 16 d) guarantees - moral
 hypothecary
17 governmental
- 18 e) reimbursement capacity

19 3 - Maturity

- 20 a) series or sinking fund bonds
- 21 b) arrangement: annual amount
 length of term
- 22 c) large amount due on ultimate date of
23 maturity

24 4 - Rate of coupon

25 5 - Yield

26 6 - Price

27 7 - Balance of individual portfolio

28 The Federation may then approve the purchase
29 with or without changes. This precautionary measure has
30 been invaluable in the past and remains in very useful



then who have the theoretical training needed do not

change have the practical training needed

required in a given instance.

The Federation therefore studies the various

types of bonds that are contemplated. Its study covers

the following points:

1 - Legal personality

a) class allowed under the law

b) legal borrowing powers of borrowing

c) regularity of the financing instrument
and of the issuing and borrowing procedure.

2 - Solvency

a) analysis of present financial statements

b) comparative study of financial statements

c) study of prospects

d) guarantees - moral

hypothecary
guarantees

e) reimbursement capacity

3 - Maturity

a) series or sinking fund bonds

b) arrangement: annual amount
length of term

c) range amount due on dates - date of
redemption

4 - Rate of coupon

5 - Yield

6 - Price

7 - Balance of individual portfolio

The Federation may then approve the purchase

with its own funds. This procedure is

been invaluable in the past and seemed to very useful



1 protection. In addition to ensuring an excellent
2 selection of securities, it allows the caisses populaires
3 to save on the purchase price.

4 g) Relations between caisses populaires and brokers

5 Business relations between stock brokerage
6 firms and caisses populaires are rather limited, as the
7 majority of caisses populaires purchase bonds from their
8 regional caisse; through bulk purchasing, they are able
9 to buy excellent securities at attractive prices.

10 The regional or central caisses purchase from
11 the brokers practically all the bonds needed by their
12 caisses populaires and by themselves.

13 h) Accounting practices

14 Bonds are entered in the books at cost. If
15 the purchase price is above par, the surplus is gradually
16 amortized over the years remaining before maturity, in
17 order that the security will then be listed at par in
18 the books.

19 If the purchase is made below par, it is
20 entered in the books at the price paid, and the profit is
21 recorded only when the bond matures or at the time of
22 sale, if any. If the value of the security holdings
23 rises or drops with the market, this is not recorded
24 in the books because most bonds are kept to maturity
25 to avoid an accounting problem (which would not be too
26 serious in some institutions managed by professionals)
27 which is useless in our type of organization. However,
28 when the market slackens, some of the larger caisses
29 populaires set up a reserve from part of the annual net
30 surpluses to absorb the depreciation of securities.

selection of securities, it allows the company
to save on the purchase price.

g) Relations between the company and the securities

times and certain populations are rather limited, as the
majority of certain populations purchase bonds from their
regional offices; through bank intermediaries, they are able
to buy excellent securities at attractive prices.

The regional or central offices purchase from
the brokers practically all the bonds needed by their
certain populations and by themselves.

h) Accounting conditions

Bonds are entered in the books at cost. If
the purchase price is above par, the surplus is gradually
amortized until the book value reaches par. In
order that the security will then be listed at par in
the books.

If the purchase is made below par, it is
entered in the books at the price paid, and the surplus is
recorded only when the bond matures or at the time of
sale, if any. If the value of the security holdings
rises or drops with the market this is not recorded
in the books because most bonds are held to maturity
to avoid an accounting problem (which would not be the
solution in some countries) which is necessary in our type of organization. However,
when the market advances, some of the larger companies
populations see no reserves from part of the company's net
income to show the depreciation of securities.



Should the need arise for a caisse populaire to obtain cash, it will generally prefer to borrow from the regional caisse rather than to sell securities at a loss. It is a very short-term loan. By taking the necessary action, the caisse populaire will be able to repay its loan to the regional caisse and resume possession of its bonds until maturity.

Finally, most of the caisses populaires do not capitalize the interest accrued on investments at the end of the fiscal year; this constitutes a kind of supplementary reserve. On the other hand, the regional caisses whose portfolio mainly consists of investments capitalize the accrued interest on bonds at the end of the fiscal year.

3 - PERSONAL AND MORTGAGE LOANS

"The guarantees of repayment being equal, small loans are to be preferred to larger ones" (article 36 of the by-laws).

On the basis of this by-law, loans are rationed in periods of tight money. Large loans are curtailed first, and if this is not enough to protect the cash position, loans are cut off entirely.

Personal loans granted against an acknowledgment of debt with or without surety to the same shareholder are limited to an amount set by the general meeting of shareholders. For larger loans, moveables (membership shares, savings, legally authorized bonds, agricultural collateral) must be given as security. The



to obtain cash, it will necessarily, before its return from
the national estate, have to sell securities at a
loss. It is a very short-term loan, by taking the
necessary action, the estate population will be able to
repay the loan to the national estate and recover
possession of its funds and activity.

Primarily, most of the estate population do not
realize the interest involved in the estate at the
end of the fiscal year; this constitutes a kind of
displacement of the estate. In the estate, the population
consists whose portfolio mainly consists of investments
capitalize the accrued interest in bonds at the end of
the fiscal year.

THE NATIONAL AND THE STATE

"The guarantee of repayment being equal, small
loans are to be preferred to larger ones" (Article 30 of
the by-laws).

On the basis of this by-law, loans are
returned in periods of equal money. When loans are
outstanding first, and if this is not enough to protect
the cash position, loans are cut off entirely.

Personal loans (which are not secured)
must of debt with or without security to the same amount.
Borrowers are limited to an amount not of the general
meeting of shareholders. For larger loans, members
(membership shares, savings, legally authorized bonds,
agricultural collateral) must be given as security. The



1 limit does not apply to mortgage loans or to loans
2 granted to public bodies such as municipalities and
3 school boards, or to "fabriques" or religious orders, or
4 to co-operative societies.

5 The position of the caisses populaires at
6 December 31, 1960, as shown in the statistics section,
7 page , indicates the balance due on loans by the
8 various public bodies.

9 The favoured categories of borrowers and the
10 size of loans granted against acknowledgements of debt
11 or against mortgages, are indicated in the statistics
12 section, pages . . . and

13 a) Purposes of Objects of Loans

14 The caisses populaires are "the true banks of
15 the people (see the brochure on the 'caisse populaire',
16 by Alphonse Desjardins) where the honest, industrious,
17 sober, thrifty worker and farmer can obtain the funds
18 they need to finance their activities, set up a home,
19 free themselves of a heavy debt, make necessary cash
20 purchases", etc.

21 Unfortunately, we have no statistics showing
22 the use of loans according to their object. In the
23 spirit of the founder, loans are made for purposes
24 productive or advantageous to the borrowers. "Never,
25 in any circumstance, wrote Commander Alphonse Desjardins,
26 should a caisse populaire loan for an unproductive
27 expense". The caisse populaire must loan "to help its
28 members and make them more prosperous."

29 b) Evaluation of possible losses

30 The moral credit of small people is excellent,



that does not apply to any given loan or to loans
 granted to public bodies such as municipalities and
 school boards, or to "charitable" or religious orders, or
 to co-operative societies.

The position of the various categories in
 December 31, 1960, as shown in the statistics section,
 page , indicates the balance due on loans by the
 various public bodies.

The favoured categories of borrowers and the
 case of loans granted against acknowledgements of debt
 or against mortgages, are indicated in the statistics
 section, pages , and

a) Purpose of Loans

The various purposes are "the true basis of
 the people (see the brochure on the 'causes population',
 of financial assistance) and the funds
 solvent, partly worker and farmer can obtain the funds
 they need to finance their activities, set up a home,
 free themselves of a heavy debt, make necessary cash
 purchases", etc.

Unfortunately, we have no statistics showing
 the use of loans according to their object. In the
 spirit of the founder, loans are made for purposes

in any circumstances, whose commandment African Testaments,
 should a cause population loan for an reproductive
 expense". The cause population must loan "to help its
 members and make them more prosperous.

b) Examination of loans

The moral credit of each people is excellent.



particularly when they take out a loan from their own
caisse populaire. The percentage of delayed repayments
is very small in relation to the total amount of loans.
Delays are perhaps more frequent in the rural caisses
populaires, in view of the irregularity of agricultural
income, which is subject to the whims of nature and to
market conditions; but the danger of loss is practically
inexistent.

On the whole, borrowers faithfully meet their
obligations; that is why the caisses populaires do not
set aside a special reserve for doubtful or bad loans;
losses being scarce and quite small, they are absorbed
from the annual net surpluses.

The following table shows the number and
amount of losses sustained on loans by the caisses
populaires in the main years studied by the commission.
The loss statistics given here are based on a special
questionnaire filled by 65 per cent of the caisses
populaires holding 85 per cent of assets as at
December 31, 1961:

Year	Number of losses	Value of losses	Loans granted during the year
1940	15	\$ 4,550	
1945	6	2,861	
1950	6	2,052	\$1 52,288,680 (1)
1951	18	16,950	58,521,774 (1)
1952	18	9,014	65,430,562 (1)
1953	19	39,640	80,602,938 (1)
1954	20	12,736	79,689,195 (1)
1955	20	18,289	97,115,354 (1)
1956	39	28,825	119,151,104 (1)
1957	41	23,272	117,370,616 (1)
1958	33	31,175	129,568,909 (2)
1959	70	23,650	143,987,057 (2)
1960	63	25,307	126,525,147 (2)
1961	52	14,538	178,929,133 (2)

Delays are perhaps more frequent in the rural classes
populines, in view of the irregularity of agricultural
income, which is subject to the whims of nature and to
market conditions; but the degree of loss is practically
inexistent.

On the whole, however, liability was their
obligations; that is why the classes mentioned do not
set aside a special reserve for doubtful or bad loans;
loans being scarce and quite small, they are absorbed
from the annual net surplus.

The following table shows the number and
amount of losses sustained on loans by the classes
populines in the main years studied by the commission.
The loss statistics given here are based on a special
questionnaire filled by 55 per cent of the classes
populines holding 87 per cent of assets as at

December 31, 1931:

Year	Number of loans	Amount of losses
1920	15	\$ 4,480
1925	5	2,01
1930	5	1,000
1931	15	10,000
1932	15	1,000
1933	15	1,000
1934	15	1,000
1935	15	1,000
1936	15	1,000
1937	15	1,000
1938	15	1,000
1939	15	1,000
1940	15	1,000
1941	15	1,000
1942	15	1,000
1943	15	1,000
1944	15	1,000
1945	15	1,000
1946	15	1,000
1947	15	1,000
1948	15	1,000
1949	15	1,000
1950	15	1,000
1951	15	1,000
1952	15	1,000
1953	15	1,000
1954	15	1,000
1955	15	1,000
1956	15	1,000
1957	15	1,000
1958	15	1,000
1959	15	1,000
1960	15	1,000
1961	15	1,000



- (1) Statistics from the Province of Quebec Bureau of Statistics based on the fiscal year and including all reporting caisses populaires in Quebec.
- (2) Statistics based on the calendar year and including only the caisses populaires affiliated to the Quebec Federation.

c) Freedom of members of credit committee and supervisory committee

The members of the credit committee and of the supervisory board are not allowed to borrow or to endorse a loan. The purpose of this is to ensure the greatest freedom of action and to avoid the criticism that might be caused if they granted loans to themselves.

The manager and employees are not allowed to endorse loans.

Only the administrators who have no authority in the field of loans to shareholders may borrow and endorse loans.

d) Loans subject to approval by the regional union or the Federation

The credit committee alone has complete control of the loans to shareholders within the limits set by the general meeting.

However, a by-law in the regional unions requires affiliated caisses populaires to obtain prior approval from the regional union or the Federation to loan

- 1) over 5 per cent of the assets or \$40,000 to the same shareholder;
- 2) to a public body;
to a business or industrial firm
to a co-operative society.



(1) Statistics from the Bureau of Quebec Bureau of
Statistics based on the fiscal year and including
all reporting persons residing in Quebec.

(2) Statistics based on the calendar year and including
only the persons who are entitled to the
Quebec Pension.

c) Freedom of members of credit committees and
supervisory committees

The members of the credit committees and of the
supervisory board are not allowed to borrow or to endorse
a loan. The purpose of this is to ensure the greatest
freedom of action and to avoid the situation that might
be caused if they were to borrow.

The manager and employees are not allowed to
endorse loans.

Only the administrators who have no authority
in the field of loans to shareholders may borrow and
endorse loans.

d) Loans subject to approval by the regional union
or the Federation

The credit committee alone has complete
control of the loans to shareholders within the limits
set by the general meeting.

However, a by-law in the regional unions
may give the credit committee the power to
approval from the regional union or the Federation to

1) over 5 per cent of the assets or \$40,000
to the same shareholder;
2) to a partner;
3) to a business or industrial firm;
4) to a co-operative society.



The purpose of this by-law is to avoid large loans to the same shareholder, something which could prevent the caisse populaire from granting many small loans; risks of loss through a lack of diversification are also to be avoided.

This by-law requires the caisse populaire to have the record of any corporation examined, and to seek the approval of a higher authority before granting a loan. Loans to enterprises and institutions require greater caution; it is necessary to ascertain the regularity of the incorporation, whether by letters patent issued under the Companies Act, or under various public acts. In addition, the corporation's legal power to borrow and its right to mortgage property provide other forms of security must be looked into.

The second stage consists of analyzing the financial statements and assessing the true financial position. Financial analysis requires a knowledge of accounting which the members of a local credit committee do not always have. The study will reveal the credit needs of the enterprise, the possible mode of repayment and the type of surety to be required.

The regional union or the Federation is then in a position to approve or reject the loan.

e) Types of Surety

1. Acknowledgement of debt

Loans granted against an acknowledgement of debt are made with or without an endorsement. Every caisse populaire sets its own policy in the matter.

Moveable assets are also accepted as collateral.



The purpose of this system is to avoid large loans to the same shareholder, a condition which could be avoided by the system of loan through a bank of classification and also to be avoided.

This system requires the same principle to have the record of any company's assets, and to have the record of a company's liabilities.

Granting a loan. Loans to shareholders and institutions require greater caution; it is necessary to ascertain the regularity of the incorporation, whether by letters patent issued under the Companies Act, or under various other forms of security and as looked into.

power to borrow and the right to mortgage property properly given.

The second stage consists of analyzing the financial statements and assessing the true financial position. Financial analysis requires a knowledge of accounting which the members of a local society.

committee do not always have. The study will reveal the credit needs of the enterprise, the possible mode of repayment and the type of security to be required.

The regional union of the Corporation is then in a position to approve or reject the loan.

e) Loans of money

1. Repayment of loans

Loans granted against an undertaking of

that the loan will be repaid in full.

Loans granted against the own policy in the market.

Loans granted against the own policy in the market.



1 The shares and savings of a member or of another party
2 are also frequently used as collateral. The Act
3 provides for automatic compensation at any time of the
4 obligations contracted. (Section 46, paragraph 4 of
5 the Act).

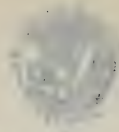
6 Other moveables which can be used as
7 collateral include, first, such bond as are allowed
8 under section 40 of the Act (those which may be owned
9 by the caisse populaire) and, if authorized under the
10 by-laws, other moveable assets, usually in the form of
11 bonds. A security margin of 10 per cent is applied
12 for easily marketable securities, and a larger margin
13 is applied to other assets accepted as collateral.

14 The surrender value of life insurance policies,
15 where the beneficiary is not the wife of the policy
16 holder, is also acceptable.

17 In rural areas, farm products, livestock and
18 farming implements may also be used as collateral.

19 Under a provincial act for the improvement of
20 farms, the government provides a 10 per cent guarantee
21 on loans up to an amount of \$7,000 and refunds 3 per cent
22 on the interest charges.

23 Maritime credit legislation assists fishermen
24 in the financing of fishing gear and boats. The
25 provincial government refunds 4 per cent of the interest
26 to the fishermen and provides insurance on their life
27 for the benefit of the caisse populaire. If the local
28 caisse populaire is short of funds, it may obtain funds
29 from the Caisse regionale de Gaspé and (or) from the
30 Caisse centrale de Lévis, to which the provincial



The word "asset" as defined in the Act
also frequently used as collateral. The Act
provides for automatic liquidation at any time of the
obligations connected with the property of a

Other provisions which are not used as
collateral include, first, assets held as security
under section 40 of the Act (assets which may be used
as the subject of a mortgage) and, secondly, assets
by-law, other movable assets, namely in the form of
bonds. A security margin of 10 per cent is applied
for easily marketable securities, and a larger margin
is applied to other assets recognized as collateral.

The estimated value of the interest payable
where the beneficiary is not the wife of the holder
holder, is also applicable.

In rural areas, farm products, livestock and
farming implements may also be used as collateral.

Under a provincial act for the improvement of
farms, the Government provides a 10 per cent guarantee
on loans up to an amount of \$1,000 and returns 3 per cent
on the interest charges.

In the financing of fishing gear and boats. The
provincial government returns 3 per cent of the interest
to the fishermen and provides insurance on their life
for the benefit of the widow and children. In the case
of a fisherman who is unable to work because of an
injury from the Galase region (the Galase and the Galase
Galase centre de l'Etat, which the provincial



government has provided a guarantee of \$75,000 to cover possible losses.

Statistics of the Department of Fish and Game of the Province of Quebec - March 13, 1961 to Sept. 30, 1961

	<u>Number of Loans</u>	<u>Amount Loaned</u>	<u>Interest Refunded</u>	<u>Loan insurance premium</u>
Gaspe Area	2,128	\$ 951,305	58,869	9,374
Madgalen Islands	2,757	\$1,621,626	77,002	19,912
North Shore of Gulf	343	107,468	17,091	1,131
	5,228	\$2,680,399	\$152,962	\$30,417

April 1, 1961 to October 1, 1961

	<u>Gaspe Area</u>	<u>Magdalen Islands</u>	<u>North Shore of Gulf</u>	<u>Totals</u>
Number of loans in force	196	322	133	651
Amount of loans in force	\$384,908	414,536	37,535	836,979
Number of new loans	44	61	85	190
Amount of new loans	\$50,114	52,150	21,200	123,464
Balance payable as of October 1	\$271,740	295,279	22,907	589,927
Interest refunded by Department	\$5,190	5,792	637	11,621
Insurance premium paid by the Department	\$750	1,448	158	2,357

Credit is granted to settlers by the caisse populaires. The government of the Province of Quebec refunds 3 per cent of the interest to the caisse populaire and supervises the settlers' operations.

a) Loans to public bodies

The caisse populaire shares in the financing



Statement of the Department of Fish and Game of the Province of Quebec -
 March 15, 1921 to Sept. 30, 1921

Grange Area	Interest	Interest	Interest	Interest
2,153	\$ 321,705	23,850	2,374	
Grange Area				
2,153	\$ 321,705	23,850	2,374	
Grange Area				
2,153	\$ 321,705	23,850	2,374	

Statement of the Department of Fish and Game of the Province of Quebec -
 March 15, 1921 to Sept. 30, 1921

Grange Area	Interest	Interest	Interest	Interest
2,153	\$ 321,705	23,850	2,374	
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The above figures are in the amount of \$1,000,000.00
 and are subject to the audit of the Comptroller General of the Province of Quebec.
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 and are subject to the audit of the Comptroller General of the Province of Quebec.



1 of local public bodies - municipalities, school boards
2 and "fabriques" - where the amount is not too large
3 and the loan is for a short term. If it has the
4 necessary funds available, the caisse populaire will
5 gladly loan at reasonable terms. The rate of interest
6 is usually lower than the current rate of interest
7 against an acknowledgement of debt; it is in line with
8 the usual rate on bond investments at the time the loan
9 is granted. Such loans must be approved by the regional
10 union or the Federation and by the Quebec Municipal
11 Board. A loan to a "fabrique" must be approved by
12 the diocesan bishop.

13 b) Loans to co-operatives

14 Loans are often granted by the caisses
15 populaires against an acknowledgement of debt. The
16 amounts vary according to the financial position of the
17 borrowing co-operative. The rate of interest is
18 usually the rate charged to other borrowers. Such loans
19 are usually short-termed.

20 For medium or longer term loans, the caisse
21 populaire requires the security of a mortgage or of
22 moveable assets to protect itself adequately.

23 The caisses populaires have granted generous
24 loans to housing co-operatives for their temporary
25 financial needs in anticipation of loans to individuals
26 by insurance companies or the Central Mortgage and
27 Housing Corporation. We are informed by the
28 Federation des Co-operatives d'Habitation du Quebec that
29 2,831 houses have been built since 1943 by affiliated
30 housing co-operatives. It is believed that the actual



1 number of new buildings constructed by the housing co-
2 operatives for that period will be more than 5,000
3 units. It is known that a mortgage must wait 30 days
4 after completion of the work to eliminate the risk of
5 claims from workers and material suppliers and for
6 architects fees, as such claims enjoy priority over the
7 mortgage.

8 The caisses populaires loan to many housing
9 co-operatives against the transferred security of the
10 lending firm's promise of a loan. The lending firm is
11 usually an insurance firm or the Central Mortgage and
12 Housing Corporation.

number of new buildings constructed by the housing co-
operatives for that period will be more than 2,000
units. It is known that a mortgage must wait 30 days
after completion of the work to eliminate the risk of
claims from workers and material suppliers and for
architects fees, as such claims enjoy priority over the

The various population loan to many housing
co-operatives against the transferred security of the
lending firms promise of a loan. The lending time is
usually an insurance time on the capital mortgage and



2 - Mortgages

This chapter deals with all loans secured by mortgages: leases with agreement of sale, sales with privilege of repurchase, etc.

Loans are generally granted on a first mortgage. Loans on mortgages are not restricted by law or regulations in relation to municipal assessment or other factors. Each application for a loan is judged on its merits by a credit committee. Loans, however, rarely exceed 65% of the market value of the property. Loans for low-cost housing, however, may reach 90% of the cost of construction.

The term of a loan varies with the capacity of each borrower to repay. In general, the term is 15 years, but the Caisse Populaire reserves the right to require repayment after 3 or 5 years. The borrower repays the loan in monthly instalments.

The caisses populaires use one form of mortgage deed which is standard throughout the Province of Quebec.

a) Family Dwellings

Under the Provincial Farm Act to improve housing conditions, which is administered by the Provincial Credit Bureau, loans are granted for one-family dwellings costing up to \$12,500, including land. The maximum cost of two-family dwellings must not exceed \$17,000. The maximum rate of interest permissible is 6 $\frac{3}{4}$ %, and the provincial government reimburses 3% of the interest. As of 31st December, 1960, 743 caisses populaires had granted loans under this law, thus lending \$86,244,569 to some 13,000 members.

This chapter deals with all loans secured by mortgages.
loans with agreement of sale, sales with privilege of repurchase.

Loans are generally granted on a first mortgage. Loans
to municipal assessment or other factors. Each application for a
loan is judged on its merits by a credit committee. Loans,
however, rarely exceed 60% of the market value of the property.
Loans for low-cost housing, however, may reach 80% of the cost
of construction.

The term of a loan varies with the capacity of each
borrower to repay. In general, the term is 15 years, but the
caisse populaire reserves the right to require repayment either
3 or 5 years. The borrower repays the loan in monthly instal-

The caisses populaires are one form of mortgage used
which is standard throughout the Province of Quebec.

41 Family Dwellings

Under the Provincial Farm Act to improve housing
conditions, which is administered by the Provincial Credit
Bureau, loans are granted for one-family dwellings costing up
to \$12,500, including land. The maximum cost of two-family
dwellings must not exceed \$17,000. The maximum rate of interest
permissible is 6%, and the provincial government reimburses 2%
of the interest. As of 31st December, 1960, 700 caisses
populaires had granted loans under this law, thus lending
\$86,244,569 to some 13,000 members.



		Number of loans granted by:		
Rate of interest	Year	Number of loans under the terms of the Act	Caisses populaires	Other enterprises
5%	1949	2,175	\$ 2,884,877.24	\$ 8,660,956.82
	1950	4,184	3,803,212.53	31,690,816.75
	1951	5,239	3,566,638.63	33,765,471.91
6%	1952	3,996	4,454,092.43	21,892,479.89
	1953	4,555	4,155,652.27	30,349,293.01
	1954	4,912	6,916,139.65	29,666,607.63
	1955	3,561	8,302,049.48	16,124,363.00
	1956	3,049	10,946,698.00	7,677,321.00
	1957	2,682	10,000,994.00	6,335,951.00
	1958	2,017	10,165,455.00	2,294,005.00
	1959	2,360	12,186,430.40	3,327,449.95
6½%	1960	4,391 (1)	8,862,330.23	25,313,477.52
	1961	11,320 (2)	10,688,342.20	27,742,232.50
(1) Loans granted prior to 1960 under the Act of March 1960 .		54,441	\$96,932,912.06	\$244,840,425.98
Current loans				
(2) Loans granted prior to 1960 and accepted in 1961		2,589 1,802	\$ 8,862,330.23	\$ 21,290,630.00 4,022,847.52
		7,969		\$ 20,347,260.00

b) Social value of loans on mortgages

The caisses populaires may only grant loans for purposes which are productive and in the best interest of the borrower. Loans on mortgages are doubly profitable: 1. they enable the borrower to provide adequate housing for his family and 2. they help him to become a property owner. The family dwelling is a factor of social stability.

f) Differences between regions

There is little difference in the implementation of regulations in different regions, except for the limits imposed to each borrower by his assets and by the type of economy of the locality or region.

the locality or region

to each borrower by his assets and by the type of economy of
negotiations in different regions, except for the limits imposed
There is little difference in the implementation of

1) Differential borrower regions

family ownership is a factor of social stability.
and 2) they help him to become a property owner. This
enable the borrower to provide adequate housing for his family.
borrower. Loans on mortgages are doubly profitable: 1. they
purpose which are productive and in the best interest of the
The mortgagee participates may only grant loans for
b) Social value of loans on mortgages

in 1955
to 1955 and accepted
2,588
2,588

Ac of March 1950.
to 1950 under the
11,260

1951	11,260	2,588	10,672
1950	2,588	2,588	0
1949	2,588	2,588	0
1948	2,588	2,588	0
1947	2,588	2,588	0
1946	2,588	2,588	0
1945	2,588	2,588	0
1944	2,588	2,588	0
1943	2,588	2,588	0
1942	2,588	2,588	0
1941	2,588	2,588	0
1940	2,588	2,588	0
1939	2,588	2,588	0
1938	2,588	2,588	0
1937	2,588	2,588	0
1936	2,588	2,588	0
1935	2,588	2,588	0
1934	2,588	2,588	0
1933	2,588	2,588	0
1932	2,588	2,588	0
1931	2,588	2,588	0
1930	2,588	2,588	0
1929	2,588	2,588	0
1928	2,588	2,588	0
1927	2,588	2,588	0
1926	2,588	2,588	0
1925	2,588	2,588	0
1924	2,588	2,588	0
1923	2,588	2,588	0
1922	2,588	2,588	0
1921	2,588	2,588	0
1920	2,588	2,588	0
1919	2,588	2,588	0
1918	2,588	2,588	0
1917	2,588	2,588	0
1916	2,588	2,588	0
1915	2,588	2,588	0
1914	2,588	2,588	0
1913	2,588	2,588	0
1912	2,588	2,588	0
1911	2,588	2,588	0
1910	2,588	2,588	0
1909	2,588	2,588	0
1908	2,588	2,588	0
1907	2,588	2,588	0
1906	2,588	2,588	0
1905	2,588	2,588	0
1904	2,588	2,588	0
1903	2,588	2,588	0
1902	2,588	2,588	0
1901	2,588	2,588	0
1900	2,588	2,588	0
1899	2,588	2,588	0
1898	2,588	2,588	0
1897	2,588	2,588	0
1896	2,588	2,588	0
1895	2,588	2,588	0
1894	2,588	2,588	0
1893	2,588	2,588	0
1892	2,588	2,588	0
1891	2,588	2,588	0
1890	2,588	2,588	0
1889	2,588	2,588	0
1888	2,588	2,588	0
1887	2,588	2,588	0
1886	2,588	2,588	0
1885	2,588	2,588	0
1884	2,588	2,588	0
1883	2,588	2,588	0
1882	2,588	2,588	0
1881	2,588	2,588	0
1880	2,588	2,588	0
1879	2,588	2,588	0
1878	2,588	2,588	0
1877	2,588	2,588	0
1876	2,588	2,588	0
1875	2,588	2,588	0
1874	2,588	2,588	0
1873	2,588	2,588	0
1872	2,588	2,588	0
1871	2,588	2,588	0
1870	2,588	2,588	0
1869	2,588	2,588	0
1868	2,588	2,588	0
1867	2,588	2,588	0
1866	2,588	2,588	0
1865	2,588	2,588	0
1864	2,588	2,588	0
1863	2,588	2,588	0
1862	2,588	2,588	0
1861	2,588	2,588	0
1860	2,588	2,588	0
1859	2,588	2,588	0
1858	2,588	2,588	0
1857	2,588	2,588	0
1856	2,588	2,588	0
1855	2,588	2,588	0
1854	2,588	2,588	0
1853	2,588	2,588	0
1852	2,588	2,588	0
1851	2,588	2,588	0
1850	2,588	2,588	0
1849	2,588	2,588	0
1848	2,588	2,588	0
1847	2,588	2,588	0
1846	2,588	2,588	0
1845	2,588	2,588	0
1844	2,588	2,588	0
1843	2,588	2,588	0
1842	2,588	2,588	0
1841	2,588	2,588	0
1840	2,588	2,588	0
1839	2,588	2,588	0
1838	2,588	2,588	0
1837	2,588	2,588	0
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1816	2,588	2,588	0
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1811	2,588	2,588	0
1810	2,588	2,588	0
1809	2,588	2,588	0
1808	2,588	2,588	0
1807	2,588	2,588	0
1806	2,588	2,588	0
1805	2,588	2,588	0
1804	2,588	2,588	0
1803	2,588	2,588	0
1802	2,588	2,588	0
1801	2,588	2,588	0
1800	2,588	2,588	0
1799	2,588	2,588	0
1798	2,588	2,588	0
1797	2,588	2,588	0
1796	2,588	2,588	0
1795	2,588	2,588	0
1794	2,588	2,588	0
1793	2,588	2,588	0
1792	2,588	2,588	0
1791	2,588	2,588	0
1790	2,588	2,588	0
1789	2,588	2,588	0
1788	2,588	2,588	0
1787	2,588	2,588	0
1786	2,588	2,588	0
1785	2,588	2,588	0
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1783	2,588	2,588	0
1782	2,588	2,588	0
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1780	2,588	2,588	0
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1769	2,588	2,588	0
1768	2,588	2,588	0
1767	2,588	2,588	0
1766	2,588	2,588	0
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1764	2,588	2,588	0
1763	2,588	2,588	0
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1756	2,588	2,588	0
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1752	2,588	2,588	0
1751	2,588	2,588	0
1750	2,588	2,588	0
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1747	2,588	2,588	0
1746	2,588	2,588	0
1745	2,588	2,588	0
1744	2,588	2,588	0
1743	2,588	2,588	0
1742	2,588	2,588	0
1741	2,588	2,588	0
1740	2,588	2,588	0
1739	2,588	2,588	0
1738	2,588	2,588	0
1737	2,588	2,588	0
1736	2,588	2,588	0
1735	2,588	2,588	0
1734	2,588	2,588	0
1733	2,588	2,588	0
1732	2,588	2,588	0
1731	2,588	2,588	0
1730	2,588	2,588	0
1729	2,588	2,588	0
1728	2,588	2,588	0
1727	2,588	2,588	0
1726	2,588	2,588	0
1725	2,588	2,588	0
1724	2,588	2,588	0
1723	2,588	2,588	0
1722	2,588	2,588	0
1721	2,588	2,588	0
1720	2,588	2,588	0
1719	2,588	2,588	0
1718	2,588	2,588	0
1717	2,588	2,588	0
1716	2,588	2,588	0
1715	2,588	2,588	0
1714	2,588	2,588	0
1713	2,588	2,588	0
1712	2,588	2,588	0
1711	2,588	2,588	0
1710	2,588	2,588	0
1709	2,588	2,588	0
1708	2,588	2,588	0
1707	2,588	2,588	0
1706	2,588	2,588	0
1705	2,588	2,588	0
1704	2,588	2,588	0
1703	2,588	2,588	0
1702	2,588	2,588	0
1701	2,588	2,588	0
1700	2,588	2,588	0
1699	2,588	2,588	0
1698	2,588	2,588	0
1697	2,588	2,588	0
1696	2,588	2,588	0
1695	2,588	2,588	0
1694	2,588	2,588	0
1693	2,588	2,588	0
1692	2,588	2,588	0
1691	2,588	2,588	0
1690	2,588	2,588	0
1689	2,588	2,588	0
1688	2,588	2,588	0
1687	2,588	2,588	0
1686	2,588	2,588	0
1685	2,588	2,588	0
1684	2,588	2,588	0
1683	2,588	2,588	0
1682	2,588	2,588	0
1681	2,588	2,588	0
1680	2,588	2,588	0
1679	2,588	2,588	0
1678	2,588	2,588	0
1677	2,588	2,588	0
1676	2,588	2,588	0
1675	2,588	2,588	0
1674	2,588	2,588	0
1673	2,588	2,588	0
1672	2,588	2,588	0
1671	2,588	2,588	0
1670	2,588	2,588	0
1669	2,588	2,588	0
1668	2,588	2,588	0
1667	2,588	2,588	0
1666	2,588	2,588	0
1665	2,588	2,588	0
1664	2,588	2,588	0
1663	2,588	2,588	0
1662	2,588	2,588	0
1661	2,588	2,588	0

g) Rate of interest1. Principles

There is usually a 1% difference between the rate of interest on loans against acknowledgment of debt and loans against mortgages.

A 1% reduction will usually be granted on loans granted against acknowledgment of debt when the loan is secured by shares, savings or bonds.

2. Loans against acknowledgment of debt

The chart below shows rates charged by the caisses populaires on loans against acknowledgment of debt. These rates were in force for affiliated caisses populaires at the end of the financial year 1961.

	5	161,775
5.50% à 5.99%	6	491,707
6.00% à 6.49%	430	18,601,380
6.50% à 6.99%	100	6,181,095
7.00% à 7.49%	596	33,844,106
7.50% à 7.99%	37	6,819,204
8.00%	35	2,034,926
9.00%	1	132,245
	<u>1,212</u>	<u>\$ 68,267,840</u>

Mode et médiane: 7.00%

Moyenne arithmétique: 6.63%

Moyenne pondérée par les prêts

en cours au 31 déc. 1961: 6.75%

3- Prêts sur hypothèques

Taux d'intérêt	Nombre de caisses ayant ce taux d'intérêt	Prêts en cours au 31 déc. 1961
0.00%	101	
4.50% à 4.99%	1	\$ 12,095
5.00% à 5.49%	128	14,427,277
5.50% à 5.99%	45	10,000,759
6.00% à 6.49%	610	124,397,393
6.50% à 6.99%	202	109,862,367
7.00% à 7.49%	124	60,262,442
8.00%	1	84,654
	<u>1,212</u>	<u>\$319,046,987</u>

Mode et médiane: 6.00%

Moyenne arithmétique: 5.57%

Moyenne pondérée par les prêts

en cours au 31 déc. 1961: 6.32%

A. Principals

There is usually a 1% difference between the rate of

Mode et médiane: 7,6



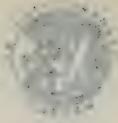
1
2 Rates of interest on loans, as well as rates of
3 interest on savings, do not vary widely nor do they vary
4 immediately after changes in the financial market. As a
5 co-operative, the caisses populaire is not a profit-seeking
6 enterprise; it seeks to serve its members.

7 The rates of interest vary only gradually as they
8 seek to get in line with the current rates.

9 Increasing the rates of interest in periods of tight
10 money in order to reduce the volume of loans could well be
11 unfair to members needing to borrow at that time. Why should
12 any member pay 7% today when the rate was 6% yesterday? It
13 could well be that such a member has entrusted his savings to a
14 caisses populaire for the past 10, 20 or 30 years without ever
15 needing to borrow; why should he then be penalized when he
16 feels the need for a loan? If the caisse populaire does not,
17 at the time, hold the liquid assets required, it refuses the
18 loan. But if it has the funds required, even in periods of tight
19 money, it simply cannot refuse to grant a loan at the current
20 rate of interest when such a loan is justified by serious needs.

21 h) Life Insurance on loans

22 An individual life insurance policy on mortgage in-
23 volves an automatic decrease in the amount of coverage. In
24 the case of life insurance on loans, the amount of coverage is,
25 at all times, equivalent to the amount due. Should a borrower
26 die when he is late in his payments, his debt is entirely
27 remitted; whereas in the case of individual insurance, the
28 coverage in force may be less than the balance due at the time
29 of death. Life insurance on loans affords the family an
30 opportunity to own a fully paid home and to free itself of any
obligation towards the caisse populaire.



...limitation on loans, as well as rates of interest on savings, do not vary widely nor do they vary ...
 co-operative, the casaca population is not a profit-seeking enterprise; it seeks to serve the members.
 The rates of interest vary only gradually as they seek to get in line with the current rates.
 Increasing the rates of interest in periods of tight money in order to reduce the volume of loans could well be unfair to members needing to borrow at that time. Why should any member pay 1% today when the rate was 5% yesterday? It could well be that such a member has accumulated his savings to a casaca population for the past 10, 20 or 30 years without ever needing to borrow; why should he then be penalized when he feels the need for a loan? If the casaca population does not, at the time, hold the right assets required, it refuses the loan. But if it has the funds required, even in periods of tight money, it simply cannot refuse to grant a loan at the current rate of interest when such a loan is justified by various needs.

h) Life Insurance on Loans

An individual life insurance policy on mortgages involves an automatic decrease in the amount of coverage as the case of life insurance on loans, the amount of coverage is, at all times, equivalent to the amount due. Should a borrower die when he is late in his payments, his debt is entirely remitted; whereas in the case of individual insurance, the coverage in force may be less than the balance due at the time of death. Life insurance on loans affords the family an opportunity to own fully paid loans and to free itself of any



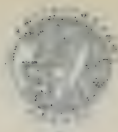
A.1.39

1
2
3 Presently, some 170,435 borrowers with loans from the
4 caisses populaires are covered by such insurance. Since 1954,
5 some 3,345 claims for amounts totalling more than six million
6 dollars have been settled. Numerous testimonies show that the
7 families concerned would have been deprived of their home had
8 it not been for that insurance.

9 Life insurance on loans, on a group basis, is of con-
10 siderable assistance to the working class, since otherwise this
11 insurance would be prohibitive for workers not only because of
12 the cost but also in view of the severe standards of medical
13 examinations. Furthermore, on an individual basis, a consider-
14 able proportion of workers would have to pay occupational extra
15 premiums to which professionals and white-collar workers are not
16 subject. One must also bear in mind that workers are unable to
17 build a home before they are well advanced in years, which tends
18 to increase further the premiums of life insurance on mortgages.

19 Under such conditions, the type of life insurance on
20 loans offered by the Caisses Populaires Desjardins is an essential
21 service and constitutes for the caisse populaire a duty that it
22 could not overlook without causing serious prejudice to the small
23 wage-earner for whose sake it was instituted.

24
25
26
27
28
29
30
(See table on following page)



Presently, some 170,000 persons with loans from the
 some 3,345 loans for amounts totaling more than six million
 dollars have been settled. Numerous statements show that the
 families concerned would have been deprived of their home had
 it not been for that insurance.

Life insurance in Japan, on a group basis, is of con-
 siderable assistance to the working class, since otherwise this
 insurance would be prohibitive for workers not only because of
 the cost but also in view of the severe standards of medical
 examinations. Furthermore, on an individual basis, a consider-
 able proportion of workers would have to pay occupational extra
 premiums to which professionals and white-collar workers are not
 subject. One must also bear in mind that workers are unable to
 build a home before they are well advanced in years, which tends
 to increase further the premiums on life insurance on mortgages.

Under such conditions, the type of life insurance on
 loans offered by the Japanese Government is an essential
 service and constitutes for the entire population a duty that it
 could not overlook without causing serious prejudice to the small
 wage-earner for whose sake it was instituted.

(See table on following page)



STATISTICS AS OF 31st DECEMBER, 1961LIFE INSURANCE ON LOANS:

Premium (rate): 0.5½ monthly per \$100.

Invalidity:

Premium (rate): 0.01 monthly per \$100.

Dividend: 10% of premiums paid

Extra dividend: 10% based on experience

In force

Policies: 1.176

Amount: \$346,488,264.

Recovery of premiums:

Individual charge: 625

Increase in rates
of interest: 551

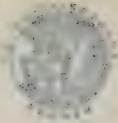
(Maximum coverage: \$10,000)

IV. LIABILITIES1. SAVINGSa) Increase in savings in the caisses populaires

See monthly increase of savings from June 1957 to March 1962, in Section III, page

For previous data, see the situation of local caisses populaires, in statistical section, pp. 173-185.

Savings have been steadily increasing. It is the result of a long and costly programme of preparation and education.



REMARKS ON THE POLICY

THE POLICY

Premium (rate): 0.25¢ monthly for \$100.

DETAILS

Dividend: 10% of premium paid
Extra dividend: 10% based on experience

In force

Policy No. 123456789
Insured: John Doe

DETAILS OF POLICY

Initial premium: \$10.00
Increase in rates: 10%
Maximum coverage: \$10,000

THE POLICY

1. PURPOSE

a) Insurance is intended to provide financial protection.

See monthly increase of savings from June 1957 to March 1962, in Section III, page

For previous data, see the situation of local classes

result of a long and costly programme of preparation and education



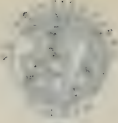
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2
3 As early as 1906, Commander Desjardins organized the first
4 school bank in order to impress school children with the value
5 of thrift and saving. The organization of school savings banks
6 may have varied (in fact it has improved) but the purpose has
7 remained the same: to train the younger generation to practice
8 foresight, thrift and saving. The amount of savings collected
9 through school banks is impressive, but even more so is the moral,
10 social and economic education which they provide for the younger
11 generation.

12 Some 335,762 school children in the Province of Quebec
13 presently own \$6,258,000 in savings. In Montreal alone, 130,585
14 children had \$3,408,000 in savings in school banks as of December
15 31, 1961.

16 Such an educational enterprise calls for much effort,
17 time and money but its beneficial results over the past few years,
18 prove that it was well worth while.

19 The only French Canadian enterprises supporting an
20 educational programme on the whole French television network of
21 the CBC are l'Assurance-vie Desjardins and the Caisses Populaires
22 Desjardins de Québec. The whole country benefits by these
23 programmes which cost hundreds of thousands of dollars each year.
24 The programmes do not carry commercials proper, but only a brief
25 presentation at the beginning and the usual greetings at the end.

26 Savings may be withdrawn on demand. It is one of the
27 reasons for the quite normal increase in savings over the past
28 few years. Depositors who are not too interested in high
29 returns may use their money as they wish and whenever they see
30 fit. This seems to be of greater appeal to them than the higher
returns on term deposits, though there are some who prefer the
latter.



school bank in order to increase school children with the value of their savings. The school bank is a very important part of the financial education of the young. It is a means of teaching the young to save and to plan for the future. The school bank is a very important part of the financial education of the young. It is a means of teaching the young to save and to plan for the future. The school bank is a very important part of the financial education of the young. It is a means of teaching the young to save and to plan for the future.

Some 31,765 school children in the Province of Ontario presently own \$6,258,000 in savings. In Ontario alone, 130,352 children own \$1,700,000 in savings. This is a very important part of the financial education of the young. It is a means of teaching the young to save and to plan for the future.

Such an educational enterprise calls for much effort, time and money but the beneficial results over the past few years have been very gratifying.

The only French Canadian enterprise supporting an educational programme on the whole French Canadian network of the CBC and the French Canadian population of the Province of Quebec. The whole school network of these programmes will cost hundreds of thousands of dollars each year. The programmes do not carry commercial profits, but only a small presentation at the beginning and the annual meeting at the end. Savings may be withdrawn or repaid. It is one of the reasons for the wide interest in the savings bank over the past few years. The interest rate is not too high and the interest is paid.

Interest may be withdrawn or repaid. It is one of the reasons for the wide interest in the savings bank over the past few years. The interest rate is not too high and the interest is paid. This seems to be of great interest to them. The interest rate is not too high and the interest is paid. This seems to be of great interest to them. The interest rate is not too high and the interest is paid. This seems to be of great interest to them.



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Toronto, Ontario

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Savings may be withdrawn over the counter or by means of a payment order (cheque) drawn on the caisses populaire. The use of payment orders in the caisses populaires goes back to the very beginning of the movement; it has been possible to trace some to the Caisse Populaire de Lévis, as early as 1907. The practice is not as recent as some people seem to think.

a) Distribution of savings accounts as of December 31, 1961

In order to study the distribution of savings accounts according to size, we have sent a questionnaire to 25% of affiliated caisses populaires representing a cross-section as to sector and assets.

Two hundred and fifty seven (257) caisses populaires, i.e. 20.8% of all affiliated, filled out the questionnaire. As of December 31, 1961, they totalled \$150,345,710 deposited in savings, i.e. 22.2% of the total savings of affiliated caisses. These savings were distributed between 297,167 accounts.

<u>Category</u>	<u>Total savings within this category</u>		<u>Number of accounts</u>	
de \$0.00 à \$500	\$ 19,424,134	ou 12.9%	223,162	ou 75.1%
\$500 à \$1,000	18,096,123	ou 12.0%	32,219	ou 10.9%
\$1,000 à \$5,000	77,947,807	ou 51.9%	37,950	ou 12.8%
\$5,000 à \$10,000	20,088,891	ou 13.4%	3,027	ou 1.0%
\$10,000 à \$25,000	9,672,648	ou 6.4%	688	ou 0.2%
\$25,000 et plus	5,116,107	ou 3.4%	121	ou 0.04%
TOTAUX:	<u>\$150,345,710</u>	<u>100.0%</u>	<u>297,167</u>	<u>100.0%</u>



Savings may be withdrawn from the counter or by means of a payment order (cheque) drawn on the caisse populaire. The use of payment orders in the caisse populaire goes back to the very beginning of the movement. It was then possible to draw some to the Caisse Populaire de Lévis as early as 1897. The practice is not as recent as some people seem to think.

a) Distribution of savings accounts as of December 31, 1961

In order to study the distribution of savings accounts according to size, we have sent a questionnaire to 22% of affiliated caisses populaires representing a cross-section as to sector and assets.

The results of this study are summarized in the following table. A total of 20.8% of all affiliated, filled out the questionnaire. As of December 31, 1961, they totalled \$150,442,710 deposited in savings, i.e. 22.2% of the total savings of affiliated caisses. These savings were distributed between 297,187 accounts.

Category	Number of accounts	Percent of total	Percent of total
\$25,000 et plus	107	3.6%	25,116,107
\$10,000 à \$25,000	658	6.4%	9,672,846
\$5,000 à \$10,000	2,037	13.4%	20,068,691
\$1,000 à \$5,000	37,950	81.9%	17,047,807
\$500 à \$1,000	32,219	12.0%	18,050,193
\$20.00 à \$500	282,162	12.9%	19,424,194
TOTAL:	287,187	100.0%	250,342,710



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Toronto, Ontario

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The above chart includes only ordinary savings against which payment orders may be drawn. To this should be added, in a special section, the \$6,259,561 held by 335,762 depositors in school banks. Such savings accounts are obviously all below \$500.

c) Use of savings accounts

In asking 25% of the affiliated caisses populaires to report on the distribution of their savings accounts, we also asked what proportion of those accounts were active and showed more than 12 withdrawals during the year 1961.

Two hundred and fifty-four (254) caisses have filled out the questionnaire thus revealing that out of a total of 279,975 accounts, 74,974, or 26.8%, had more than 12 withdrawals and that 205,000, or 73.2%, had less than 12 withdrawals. The following is an analytical chart of the caisses populaires showing the number of withdrawals in relation to their size:

	Plus que 12 retraits			Moins que 12 retraits		
	Nombre de comptes	%	Valeur moyenne au 31 déc/61	Nombre de comptes	%	Valeur moyenne au 31 déc/61
Caisses urbaines	46,530	29.2	\$ 618.02	112,668	70.3	\$ 537.37
Caisses semi- urbaines	10,465	26.0	750.24	29,716	74.0	398.28
Caisses rurales	17,979	22.3	681.22	62,617	77.7	362.91
Caisses ayant moins que \$500,000 à l'épargne:	19,116	23.6	\$ 594.67	62,023	76.4	\$ 327.70
Caisses ayant \$1,000,000 et plus à l'épargne:	36,504	27.0	667.44	98,826	73.0	565.98
TOTAUX:	74,974	26.8%	\$ 641.93	205,001	73.2%	\$ 464.92



The above chart includes only ordinary savings accounts which payment orders may be drawn. To this should be added, in a special section, the \$6,289,661 held by 335,462 teachers in school banks. Such savings accounts are obviously all below \$500.

c) Use of savings accounts

In asking 25% of the affiliated Chinese population to report on the distribution of their savings accounts, we also asked what proportion of those accounts were active and showed more than 12 withdrawals during the year 1961. Two hundred and fifty-four (254) cases have filled out the questionnaire thus revealing that out of a total of 229,975 accounts, 74,974, or 32.6%, had more than 12 withdrawals and thus 205,000, or 73.2%, had less than 12 withdrawals. The following is an analytical chart of the cases population showing the number of withdrawals in relation to their assets.

Assets of 12 or more		Assets of 12 or less		Total	
Number of cases	%	Number of cases	%	Number of cases	%
10,493	20.0	29,716	12.9	40,209	17.5
17,979	22.3	68,317	29.7	86,296	37.8
19,116	22.8	68,317	29.7	87,433	38.1
38,504	27.0	98,823	43.0	137,327	59.8
74,974	32.6	205,001	89.8	279,975	122.4

d) Retraits sur l'épargne

Année	Valeur totale des retraits effectués sur épargne (1)
1950	\$ 453,813,137
1955	854,265,083
1960	1,594,231,800

(1) Data based on the calendar year and including only the caisses populaires affiliated to the Quebec Federation.

e) Rate of interest on savings

The board of directors sets the rate of interest on savings. A co-operative principle requires that current rates be respected to prevent unfair competition. Since they do not have to contend with heavy operation costs, the caisses populaires may even occasionally pay a rate of interest which is slightly higher than that of the banks. Interest is always paid quarterly on the minimum balance.

Rates of interest on savings in affiliated caisses populaires, at the end of their financial year 1961, were as follows:

Rates of interest %	Number of caisses paying the stated rate	Savings as of December 31, 1961
0.00%	8	\$ 190,242
1.00%	4	109,944
1.50% à 1.99%	35	1,308,661
2.00% à 2.49%	141	15,141,072
2.50% à 2.99%	373	113,487,646
3.00% à 3.49%	635	530,755,324
3.50% à 3.99%	11	16,222,496
4.00% à 4.49%	4	2,553,639
4.50% à 4.99%	1	3,704,128
Mode and median:		
Arithmetic mean:	1,212	\$ 683,473,152
Average, weighted by savings as of December 31, 1961:		



January, 1941

(b) Assets and Liabilities

Assets	Liabilities
1940	1940
1,100,000,000	1,100,000,000
1,100,000,000	1,100,000,000

(1) Data based on the calendar year and including only the
casualties population affiliated to the Quebec Federation.

(c) Rate of interest on savings

The board of directors sets the rate of interest on
savings. A co-operative principle requires that current rates
be respected to prevent unfair competition. Since they do not
have to contend with heavy operation costs, the caseness
population may even occasionally pay a rate of interest which
is slightly higher than that of the banks. Interest is always
paid quarterly on the minimum balance.

Rates of interest on savings in affiliated caseness

populations, at the end of their financial year 1941, were as

follows:

Savings as of	Number of caseness	Rate of interest
1941	1940	Y
1,100,000,000	4	1.00%
1,000,000,000	30	1.00%
1,000,000,000	141	2.40%
1,000,000,000	370	2.90%
1,000,000,000	500	3.40%
1,000,000,000	11	3.90%
1,000,000,000	9	4.40%
1,000,000,000	1	4.80%
1,000,000,000	1,110	4.80%
1,000,000,000	1,110	4.80%

Arithmetic mean:
Average, weighted
of savings as of



1
2
3 Most caisses offering the benefits of life insurance
4 on savings have two rates of interest. The first rate,
5 usually inferior to the second by 0.50%, applies to the insured
6 portion of savings; the second rate applies to savings not
7 covered by the life insurance policy. In the above chart, only
8 this higher rate was taken into account.

9 The rate is set according to the caisse populaire's
10 ability to pay. In its early operations, the caisse has no
11 reserves proper and obviously cannot pay the same rate as caisses
12 which, having been in operation for several years, have consider-
13 able reserves. They start at 2% and the rate increases progres-
14 sively with their financial potential. The members of the three
15 boards or committees of the caisse are never remunerated for
16 their services. In the first years of operation of a caisse
17 populaire, the manager himself occasionally gets either no pay or
18 only a very modest amount not at all related to the work
19 accomplished.

20 Such dedication, together with the members' wish to
21 manage their own enterprise, is an incentive to keep their savings
22 within the parish in order to allow their capital to build up.

23 f) Effects of changes in the rate of interest on the volume
24 of savings

25 Experience has shown that the rate of interest paid
26 on savings is not a decisive factor in attracting deposits; no more
27 indeed than a high rate of interest is an effective check against
28 borrowing. The constant aim should be to pay the prevailing rate
29 of interest.
30



THE EFFECTS OF CHANGES IN THE RATE OF INTEREST

on savings have two rates of interest. The first rate, usually inferior to the second by 0.5%, applies to the insured portion of savings; the second rate applies to savings not covered by the life insurance policy. In the above chart, only this higher rate was taken into account.

The rate is set according to the various population's ability to pay. In the early operations, the balance has no reserves proper and obviously cannot pay the same rate as colonies which, having been in operation for several years, have considerable reserves. They start at 2% and the rate increases progressively with their financial potential. The members of the first boards or committees of the colonies are never remunerated for their services. In the first years of operation of a colony population, the manager himself occasionally gets either no pay or only a very modest amount not at all related to the work accomplished.

Such dedication, together with the rewards, when to manage their own enterprise, is an incentive to keep their savings within the parish in order to allow their capital to build up.

(1) Effects of changes in the rate of interest on the volume of savings

Experience has shown that the rate of interest paid on savings is not a decisive factor in attracting deposits; no more indeed than a high rate of interest is an effective check against borrowing. The constant aim should be to pay the prevailing rate of interest.



g) Life insurance on savings

Life insurance on savings is instrumental in encouraging and stabilizing at a reasonable level savings in the low income classes. Such an achievement is not without merit when one considers the low level of individual savings which, in spite of a considerable increase over the past few years, still stands at only \$529 per member.

Life insurance on savings enable bread-winners to obtain additional low-cost security (very often it is their only life insurance policy) to enable them to cope with urgent needs. This protection, which would be prohibitive on an individual basis, is secured by diverting for that purpose, part of the interest normally paid on savings.

What would the worker do with a few more cents of interest on \$500 of savings? It has been demonstrated that our members would rather see part of their interest transferred into a security of unquestionable value to their family. No less than 870,256 patrons of 1,176 caisses in Canada presently benefit from this type of life insurance on savings.

STATISTICS AS OF DECEMBER 31, 1961

LIFE INSURANCE ON SAVINGS

Premium (rate) : 0.06½ monthly per \$100

Dividend : 15% of paid up premiums

Extra dividend : 10% based on experience

In force:

Contracts : 863

Amount : \$240,003,253

Recovery of premiums:

From the benefits : 150

Reduction of rate
of interest : 622

(Maximum coverage : \$1,000)



Increased protection:

In case of accidental death, the amount of insurance is doubled. Should such accident occur in a public building or in a vehicle used for public conveyance, the amount is trebled.

Family bonus:

In the event of the death of the father, the amount of insurance is increased by 10% per dependent child.

Accident benefits:

In the event of an accident resulting in the loss of limbs, savings are increased by 100% for the loss of two limbs and by 50% for the loss of one limb.

2 - CAPITAL

There is only one class of share: the \$5.00 share, the value of which is fixed and may not be increased. According to regulations, a thirty (30) day notice must be served to the board of directors before a share may be withdrawn. A minimum admission fee of \$0.10 per share is charged to the prospective member. It is paid directly into the reserve fund. In the caisses populaires with more extensive reserves and which can afford to pay a higher bonus on the share capital, the admission fee per share is proportionately increased; in some cases, it may reach \$0.50 for each share in excess of 50. This admission fee is in fact a contribution to the reserve fund which the new member pays in order to make up for the sacrifices of the older members who have made possible the present reserves. Since the new member becomes co-owner of such reserves, it is only fair that he should thus contribute to their growth.

In case of accidental death, the amount of insurance is doubled. Should such accident occur in a public building or in a vehicle used for public conveyance, the amount is tripled.

In the event of the death of the father, the amount of insurance is increased by 10% per dependent child.

In the event of an accident resulting in the loss of limbs, savings are increased by 100% for the loss of two limbs and by 50% for the loss of one limb.

2 - CAPITAL

There is only one class of shares: the \$5.00 share. The value of which is fixed and may not be increased. According to regulations, a thirty (30) day notice must be served to the board of directors before a share may be withdrawn. A minimum admission fee of \$0.10 per share is charged to the prospective member. It is paid directly into the reserve fund. In the cases of corporations with more extensive reserves and which can afford to pay a higher bonus on the share capital, the admission fee per share is proportionately increased; in some cases, it may reach \$0.50 for each share in excess of 50. This admission fee is in fact a contribution to the reserve fund which the new member pays in order to make up for the sacrifices of the other members who have made possible the present reserves. Since the new member becomes co-owner of such reserves, it is only fair that he should thus contribute to their growth.



This admission fee is not refundable. It is a stabilizing factor of the share capital, and is, to a degree, one of the reasons why that capital is given a secondary importance as compared to savings. Another cause is the maximum number of shares which may be owned by anyone as determined by the general assembly. This restriction is important in the early stages of the operations of a new caisse, as it prevents a few wealthy individuals from acquiring many shares which they could withdraw after a given time, if dissatisfied with the management, thus endangering the very existence of the caisse.

Membership shares are not transferable. It is practically impossible to purchase shares from another member; at any rate, this is not done since no profit can be derived from buying or selling shares. The member in need of cash may withdraw his shares; the caisse populaire will always pay \$5.00 per share. Whoever wants to become a member or purchase more shares may deal directly with the caisse which he may legally join; he will never pay more than \$5.00 per share, regardless of the size of the caisse or of how long it has been in operation. The board of directors may authorize the transfer of shares without exacting the payment of the admission fee for an heir in direct line of succession. In other cases, transfers are subject to the payment of further admission fees. This explains why there are no transfers except in settling estates.

a) Volume of withdrawals of membership shares

<u>Year</u>	<u>Amount</u>
1950	\$1,355,099 ¹
1955	2,058,338 ¹
1960	3,433,325 ²

(1) Bureau of Statistics for the Province of Quebec. These figures represent amount of refunds on shares surrendered during the fiscal year in all the caisses populaires affiliated to the Montreal Federation.

(2) Figures based on the calendar year and including only refunds on shares surrendered in the caisses populaires of the Quebec Federation.



This admission fee is not refundable. It is a
contributing factor of the share capital, and in a degree,
one of the reasons why the share is given a secondary
importance compared to savings. Another reason is the maximum
amount which may be owned by anyone as determined by
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may deal directly with the caisse which he may legally join; he
will never pay more than \$5.00 per share, regardless of the size
of the caisse or of how long it has been in operation. The board
of directors may authorize the transfer of shares without awaiting
the payment of the admission fee for an heir in direct line of
succession. In other cases, transfers are subject to the payment
of further admission fees. This explains why there are no
transfers except in selling shares.

a) Volume of withdrawals of membership shares

1950	\$1,755,000
1951	\$2,188,325
1952	\$2,188,325

(1) Bureau of Statistics for the Province of Quebec. These
figures represent amount of refunds on shares surrendered
to the caisse populaire. (2) Figures based on the calendar year, and including only
affiliated to the Montreal Federation.

(2) Figures based on the calendar year, and including only
refunds on shares surrendered to the caisse populaire
of the Quebec Federation.

b) Rates of bonus

According to one of the principles of co-operatives, the interest on capital, generally known as bonus, is limited. Such bonus, while being slightly higher (by 1% approximately) than rates of interest on savings, varies between 3% and 5%. It is not therefore a case of distributing profits as in a joint stock company, the capital of which is made up of shares; it is a case of limited interest.

Rates of interest on bonus in the affiliated caisses populaires at the end of the financial year 1961, were as follows:

Taux de boni	Nombre de caisses populaires ayant ce taux	Capital social au 31 déc. 1961
0.00%	39	\$ 59,228
1.00%	1	380
1.50%	1	617
2.00%	21	27,967
2.50%	3	7,069
3.00% à 3.49%	164	701,434
3.50% à 3.99%	13	212,688
4.00% à 4.49%	543	11,578,953
4.50% à 4.99%	38	3,584,730
5.00%	347	28,266,503
5.50%	4	2,509,368
6.00%	32	4,696,620
6.50%	1	16,229
7.00%	4	888,971
8.00%	1	30,738
	<u>1,212</u>	<u>\$ 52,581,495</u>

Mode et médiane: 4.00%
Moyenne arithmétique: 4.06%
Moyenne pondérée par le capital
social au 31 décembre 1961: 4.90%

c) Effects of bonus rates on the volume of share capital

The favourable effect of a high bonus rate in drawing more share capital is counterbalanced by the admission fee to be paid by the member. This prevents many members from acquiring further shares.



the interest on capital, generally known as bonus, is limited. Such bonus, while being slightly higher (by 1% approximately) than rates of interest on savings, varies between 3% and 3.5%. It is not therefore a case of distributing profits as in a joint stock company, the capital of which is made up of shares; it is a case of limited interest.

Rates of interest on bonus in the affiliated companies popular at the end of the financial year 1961, were as follows:

Companies		Number of cases registered		Capital social	
		at the end of the year		at the end of the year	
1	0.00%	30	50,000	50,000	50,000
2	1.00%	1	500	500	500
3	1.50%	1	500	500	500
4	2.00%	21	27,000	27,000	27,000
5	2.50%	5	5,000	5,000	5,000
6	3.00%	104	101,400	101,400	101,400
7	3.50%	13	212,000	212,000	212,000
8	4.00%	213	11,548,500	11,548,500	11,548,500
9	4.50%	98	3,544,100	3,544,100	3,544,100
10	4.80%	247	28,208,500	28,208,500	28,208,500
11	5.00%	4	2,300,000	2,300,000	2,300,000
12	5.50%	32	4,000,000	4,000,000	4,000,000
13	6.00%	1	10,000	10,000	10,000
14	6.50%	4	888,171	888,171	888,171
15	7.00%	1	20,000	20,000	20,000
16	7.50%	1,212	32,000,000	32,000,000	32,000,000

Source: Bureau de la statistique, 1962.
Légende: pondérée par le capital social au 31 décembre 1961: 4.40%

c) Effects of bonus rates on the volume of share capital
The favourable effect of a high bonus rate in drawing more share capital is counterbalanced by the reduction in the rate of interest on the bonus. This results in a lower rate of interest on the bonus.



1
2 Example. - A \$0.25 fee represents 5% interest on a \$5.00 share
3 over a one-year period. The member thus loses a full year of
4 interest. In five years, he will get \$1.25 bonus less the
5 admission fee. This represents a net profit of \$1.00 for a five-
6 year period for one \$5.00 share or a yield of only 4%.

7 In practice, the bonus rate has but little influence
8 on the volume of capital. A liberal bonus rate may, however,
9 have a stabilizing effect.

10 The share capital constitutes a joint ownership. Law
11 links the share capital with the responsibilities of ownership;
12 the share capital is thus subject to risks which do not affect the
13 savings, which constitute one of the liabilities of the enterprise.

14 One may then readily understand that share capital is
15 secondary to savings. In this connection, the caisses populaires
16 may be compared to other financial enterprises receiving deposits.

17 d) Insurance against losses

18 The savings of the members are well protected by
19 adequate reserves, efficient inspections, an all-inclusive policy
20 for a minimum amount based on a general scale, an additional
21 \$10,000 bond applicable to all affiliated caisses populaires and
22 finally by a substantial security fund in case all other safety
23 measures should prove inadequate.

24 There is no need for insurance coverage against
25 losses.
26
27
28
29
30



Company. A \$100 share in the company will cost the shareholder \$100 plus the interest. In this sense, he will get \$1.25 share less the

admission fee. This represents a net profit of \$1.00 for a five-

year period for one \$100 share or a profit of only 2%

on average, the share will be sold at a profit of only 2%

on the volume of capital. A liberal bonus rate may, however,

have a stabilizing effect.

The share capital constitutes a joint ownership. Law

links the share capital with the responsibilities of ownership:

the share capital is thus subject to risks which do not affect the

savings, which constitute one of the liabilities of the enterprise.

One may then readily understand that share capital is

secondary to savings. In this connection, the various possibilities

may be compared to other financial enterprises receiving deposits.

b) Insurance against losses

The savings of the members are well protected by

adequate reserves, efficient inspection, an all-inclusive policy

for a minimum amount based on a general scale, an additional

\$10,000 bond applicable to all affiliated disease organizations and

finally by a substantial security fund in case of other safety

measures which may be required.

There is no need for insurance coverage against

losses.

V. RELATIONS WITH OTHER FINANCIAL INSTITUTIONSa) Bank of Canada1. Selling agency

The Federation of the Caisses Populaires Desjardins is recognized by the Bank of Canada as an agency authorized to sell and issue Canada Savings Bonds.

An initial trust deposit of \$20,000 was made by the Federation and was increased to \$100,000 in 1958. The chart below shows the total sales for the various series of Canada Savings Bonds since 1946.

<u>Emission</u>		<u>Vente</u>	<u>ales</u>
1e -	1946	\$ 1,029,750	
2e -	1947	496,850	
3e -	1948	244,800	
4e -	1949	292,050	
5e -	1950	285,400	
6e -	1951	453,900	
7e -	1952	318,150	
8e -	1953	1,798,450	
9e -	1954	1,456,250	
10e -	1955	1,979,450	
11e -	1956	2,697,800	
12e -	1957	3,996,250	
13e -	1958	3,204,050	
14e -	1959	7,965,250	
15e -	1960	5,590,150	
16e -	1961	6,803,850	

TOTAL: \$ 38,612,400

2- Vente d'Obligations de la Victoire effectuée par notre entremise

<u>Emission</u>	<u>Caisses régionales</u>	<u>Caisses locales</u>	<u>Sociétaires</u>	<u>Total</u>
1e emprunt	\$ 279,500	\$ 318,500	\$	\$ 598,000
2e "	465,000	577,000	597,700	1,639,950
3e "	515,000	1,108,050	983,550	2,606,600
4e "	1,220,000	1,907,750	1,670,800	4,798,550
5e "	960,000	2,261,800	2,842,200	6,064,000
6e "	850,000	2,727,800	3,800,800	7,378,600
7e "	435,000	2,671,650	5,024,900	8,131,550
8e "	525,000	2,172,500	5,881,900	8,579,400
9e "	580,000	3,619,950	9,800,050	14,000,000
GRAND TOTAL:	\$5,829,500	\$17,365,000	\$30,601,900	\$53,796,650



Nethercut & Young

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Toronto, Ontario

1 | 3- Emission du convertissement au 30 septembre 1958:

<u>Emission</u>	<u>Caisses centrales</u>	<u>Caisses locales</u>	<u>Sociétaires</u>	<u>Courtier</u>	<u>TOTAL</u>
5e emprunt	\$ 492,300	\$ 2,115,300	\$ 79,400	\$ 1,250	\$ 2,688,250
6e "	751,450	2,404,900	135,600	1,000	3,292,950
7e "	2,043,550	2,147,850	192,550	6,600	4,390,550
8e "	127,700	2,418,050	272,250	6,000	2,824,000
9e "	352,400	3,192,400	424,250	10,250	3,979,750
TOTAL:	\$3,767,400	\$12,278,950	\$1,104,050	\$ 25,100	\$17,175,500

Rajustement

d'intérêt

payé:

\$ 58,167	\$ 188,650	\$ 14,699	\$ 307	\$ 261,824
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The Federation of the Caisses Populaires Desjardins has been pleased to do its fair share in helping the Bank of Canada achieve one of its objectives.

b) An appraisal of competition

1. Rates of interest on savings

Rates of interest paid on savings and rates of bonus paid on share capital are basically the same as those paid by other financial institutions receiving deposits and granting loans.

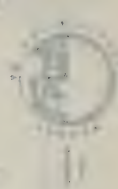
The rate of interest on savings is determined on the same basis as in banks.

The slightly higher rates paid in some cases is accounted for by the lower costs of operation and by the fact that administrative functions are performed free of charge.

2. Rates of interest on loans

Loans are granted at prevailing rates, but frequently enough at slightly lesser rates since our main concern is to be of assistance to our members and not to make profits.

The Caisses Populaires grant their members the privilege of repaying a loan at any time without any penalty. Moreover, no interest is charged on any portion of a loan which



Statement of Assets
 and Liabilities

Statement of Income and Expenses

Assets	Liabilities	Income	Expenses	Reserve	Surplus
Cash \$ 492,300 Loans 2,042,250 127,700 322,400 Total \$ 3,964,650	Capital \$ 2,112,300 2,147,850 2,418,050 3,192,400 Total \$ 8,670,600	70,400 102,550 272,250 424,250 Total \$ 879,450	1,230 6,600 2,000 10,280 Total \$ 19,910	1,230 6,600 2,000 10,280 Total \$ 19,910	2,852,350 4,924,800 2,428,050 3,878,750 Total \$ 13,983,950
Total \$ 3,964,650	Total \$ 8,670,600	Total \$ 879,450	Total \$ 19,910	Total \$ 19,910	Total \$ 13,983,950

Interest
 paid

The Federation of the Chinese Population has been pleased to do its fair share in helping the Bank of Canada achieve one of its objectives.

b) An appraisal of competition

1. Rates of interest on savings

Rates of interest paid on savings and rates of bonus paid on share capital are basically the same as those paid by other financial institutions receiving deposits and granting loans.

The rate of interest on savings is determined on the same basis as in banks.

The slightly higher rates paid in some cases is accounted for by the lower costs of operation and by the fact that administrative functions are performed free of charge.

2. Rates of interest on loans

Loans are granted at prevailing rates, but presently at slightly lower rates since our main concern is to be of assistance to our members and not to make profits. Repaying a loan at any time without any penalty. However, no interest is charged on any portion of a loan which



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2
3 is repaid. Interest is never charged in advance. No
4 commission is required from the borrowers. A manager,
5 officer or employee who demands or accepts a commission or
6 remuneration may be dismissed forthwith.

7 Such honest policies seem to meet with the approval
8 of the members, as reflected by the growing membership of
9 the caisses populaires.

10 The caisse populaire is satisfied with a profit
11 margin sufficient to cover administrative expenses, allocate
12 the necessary funds to the depreciation reserves, pay a
13 reasonable rate of interest on savings and leave an adequate
14 amount to pay on shares and make adequate appropriations to
15 the funds proper of the caisse populaire.

16 3. Compulsory charges

17 Members normally pay the customary charges for cashing
18 or exchanging cheques or payment orders.

19 There are service charges for accounting purposes
20 unless the member waives interest on savings if his account
21 is subject to a large number of deposits and withdrawals.
22 Most caisses populaires, however, charge interest only on the
23 balance due, without setting any minimum. Thus a \$0.05
24 interest charge will be applied for an outstanding balance on
25 a loan of \$10.00 at 6% for one month. Other institutions
26 feel justified in charging a \$0.50, \$0.75 or even \$1.00
27 minimum.
28
29
30



is repaid. Interest is never charged in advance. No
commission is required from the borrower. A manager,
officer or employee who receives or accepts a commission or
remuneration may be dismissed for cause.
Such honest policies seem to meet with the approval
of the members, as reflected by the growing membership of
the caisse populaire.
The caisse populaire is not limited with a profit
margin sufficient to cover administrative expenses, allocate
the necessary funds to the depreciation reserves, pay a
reasonable rate of interest on deposits and leave an adequate

Members normally pay for the ordinary charges for cashing
or exchanging cheques or payment orders.
There are service charges for accounting purposes
unless the member wishes interest on savings in his account.
Most caisses populaires, however, charge interest only on the
balance due, without setting any minimum. Thus a \$0.05
interest charge will be applied for an outstanding balance on
a loan of \$10.00 at 5% for one month. Other institutions
charge interest on savings at 3%, 4% or even 5%.



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The following chart may be used as an illustration of the policies implemented by the caisses populaires:

\$100 loans, at 7% interest, payable in 12 months:
11 monthly instalments of \$8.34 and one final instalment of \$8.26

	<u>Balance due</u>	<u>Number of days</u>	<u>Rate of interest</u> <u>7%</u>
January	\$ 100.00	31	\$ 0.60
February	91.66	28	0.49
March	83.32	31	0.49
April	74.98	30	0.43
May	66.64	31	0.40
June	58.30	30	0.33
July	49.96	31	0.30
August	41.62	31	0.25
September	32.28	30	0.19
October	24.94	31	0.15
November	16.60	30	0.09
December	8.26	31	0.05
Amount of interest paid by the borrower:			\$ 3.77

The public may judge the value of services rendered and then select the institution providing the most satisfactory service.

4. Services offered

The caisse populaire offers the following services to its members:

Savings: withdrawable shares
demand deposits
term deposits (few cases)
Christmas banks (budgeting for Christmas holidays)
school banks



Statement of
Assets and Liabilities

The following chart may be used as an illustration of

the policies implemented by the various populations:

1500 loans, at 7% interest, payable in 12 months;
11 monthly installments of \$8.33 and one final installment
of \$8.33

Month	Balance due	Number of loans	Rate of interest per cent
January	\$ 100.00	31	0.60
February	91.66	28	0.60
March	83.33	31	0.60
April	75.00	31	0.60
May	66.67	31	0.60
June	58.33	30	0.60
July	50.00	31	0.60
August	41.67	31	0.60
September	33.33	30	0.60
October	25.00	31	0.60
November	16.67	31	0.60
December	8.33	31	0.60

Amount of interest paid by the borrower: \$ 5.76

The public may judge the value of services rendered

and then select the institution providing the most satisfactory

service.

A. Services offered

The various populations offer the following services to

its members:

Savings: withdrawable shares

demand deposits

term deposits (few cases)

Christmas banks (budgeting for Christmas)

school banks



Credit: small short-term loans
easy terms
reasonable rate of interest
against suitable security

larger medium-term loans

medium and long-term mortgage loans

Furthermore, some caisses populaires have safety deposit boxes for rent and a Canada Savings Bonds safe-keeping service.

Municipal taxes, telephone, electricity and gas bills may be paid at some caisses populaires. Moreover, rural caisses in the Province of Quebec collect dues on behalf of the Farm Credit Bureau.

5. Location of offices

Newly established caisses populaires are frequently set up in makeshift locations, such as a church basement, parish hall or a room in the manager's residence.

As soon as the caisse can afford to do so, it will move to a new and easily accessible location in the centre of the parish.

6. Offices

In the early stages, the offices are very modest. Later, especially when the caisse populaire owns a building, the office will have an attractive yet sober appearance.

Special attention is given to security and to the physical protection of values against armed robbery, burglary, fire, etc.

Armed guards are on duty in several caisses populaires.

Most caisses populaires have adequate alarm systems.



well known to the police
every day
reasonable rate of interest
against suitable security

deposit boxes for rent and a Canada Savings Bonds safe-keeping

Municipal taxes, telephone, electricity and gas bills

may be paid at some caisses populaires. Moreover, rural
caisses in the Province of Quebec collect dues on behalf of
the Farm Credit Board.

5. Location of offices

Early caisses populaires were frequently

set up in makeshift locations, such as a church basement,
parish hall or a room in the manager's residence.
As soon as the caisse can afford to do so, it will
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Later, especially when the caisse populaire owns a building,
the office will have a more dignified and sober appearance.

Special attention is given to security and to the

physical protection of values against armed robbery, burglary,
fire, etc.

Armed guards are on duty in several caisses populaires.

Most caisses populaires have adequate alarm systems.



1
2
3 7. Business hours

4 The caisse populaire generally adopts the same
5 business hours as other financial institutions and banks,
6 especially when it has a full-time staff and is open during
7 daytime. In the country, the hours will be different to
8 suit the needs of the rural population. Most caisses
9 populaires are open one or two evenings a week to accommodate
10 workers who cannot call during normal hours.

11 8. Rate of expansion

12 In some quarters, the rather rapid growth of the
13 caisses populaires has caused astonishment. This growth
14 is readily understandable in view of the quality of services
15 rendered to its members, in the field of savings and popular
16 credit, by an institution which is jointly owned by them and
17 managed by directors whom they have democratically elected.
18 Each member may rightfully say "ma caisse". There is all
19 the difference in the world between the services rendered to
20 its members by a co-operative enterprise for the sake of pro-
21 viding assistance, and the same services rendered by a profit-
22 making enterprise which, naturally, seeks above all to make
23 maximum profits.

24 In the first case, each member is dynamically involved
25 and plays an active part as an owner. In the second case,
26 the customer has the impression of contributing to the en-
27 richment of third parties: the shareholders. If the
28 institution stands to gain from the operation, he will derive
29 no benefit whatsoever although he has contributed in making
30 the profit possible.

...special functions and banks, especially when it has a high level and is open during daytime. In the country, the hours will be different to suit the needs of the rural population. Most co-operatives are open one or two evenings a week to accommodate workers who cannot call during normal hours.

8. Rate of expansion

In some countries, the rapid growth of the co-ops has caused astonishment. This growth is readily understandable in view of the quality of services rendered to its members, in the field of savings and popular credit, by an institution which is jointly owned by them and managed by directors whom they have democratically elected. Each member may rightfully say "my co-op". There is all the difference in the world between the services rendered to the members by a co-operative enterprise for the sake of providing assistance, and the same services rendered by a profit-making enterprise which, naturally, seeks above all to make

In the first case, each member is personally involved and plays an active part in its growth. In the second case, the customer has the impression of contributing to the enrichment of third parties, the shareholders. If the institution stands to gain from the operation, he will derive no benefit whatsoever although he has contributed in making the profit possible.



c) Influence of changes in the monetary situation

Changes in the monetary situation are barely noticeable. Should money be in abundant supply, the volume of loans will rise slowly and naturally. Conversely, when money is in short supply, loans will be restricted gradually, except in a case of major recession; in such a case not only will the caisse stop granting large loans, but it may stop granting loans altogether.

d) The exclusive field of endeavour of the caisses populaires

Any parishioner or resident of the community may become a member of the local savings and credit co-operative. The whole population may thus enjoy membership in the caisses. This does not preclude members engaged in industry, finance or trade from dealing with institutions which can provide financial services unavailable from the caisse populaire.

Relations with other financial institutions are cordial inasmuch as the usual rules of professional ethics are observed. The caisses populaires have never feared other monetary or financial institutions; on the contrary, they take pride in influencing other institutions to render similar services, on terms which are almost as attractive.

As the caisse populaire cannot cater to all the needs of its members, it welcomes the existence and success of other monetary or financial enterprises.

e) Clearing

Apart from ensuring the caisses populaires an attractive return on the liquid assets that they have to maintain and on the bonds that they hold in safe-keeping, the regional or central caisses have set up a complete and modern clearing service for all affiliated caisses populaires. They clear the cheques



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Changes in the monetary situation are closely related to the volume of loans. Should money be in short supply, the volume of loans will also be small. Conversely, when money is in short supply, loans will be restricted. Except in a case of major recession, it seems a case not only will the volume of loans stop growing large loans, but it may stop growing large loans.

d) The exclusive field of endeavor of the caisse populaire

Any participation or residence of the community may become a member of the local savings and credit co-operative. The whole population may thus enjoy membership in the caisses. This does not preclude members engaged in industry, finance or trade from dealing with institutions which can provide financial services separate from the caisse populaire. Relations with other financial institutions are cordial inasmuch as the usual rules of professional ethics are observed. The caisse populaire does not compete with banks or financial institutions; on the contrary, they take pride in influencing other institutions to render similar services, on terms which are almost as attractive.

As the caisse populaire cannot cater to all the needs of its members, it welcomes the existence and success of other monetary or financial enterprises.

e) Clearing

Apart from ensuring the caisses maintain an active and free return on the liquid assets that they have to maintain and on the bonds that they hold in safe-keeping, the regional or central caisses have set up a complete and modern clearing service for all affiliated caisses populations. They clear the cheques



received by the caisses populaires and submit them to the banks for payment. On the other hand, the banks must be able to clear with the caisses populaires any payment order drawn against the latter. There is also the clearing of payment orders drawn on a caisse populaire and negotiated by another caisse populaire.

The ten (10) regional unions have therefore set up regional or central caisses populaires located in ten important centres of the province to negotiate on a day-to-day basis any such instruments drawn against a bank or caisse populaire.

The regional or central caisses populaires render obvious services to affiliated caisses populaires, but they also render a great service to the banks by submitting at one time all instruments to be cleared. Conversely, the caisses populaires of Montreal and Quebec daily redeem payment orders which are drawn on the caisses populaires and have been negotiated through a bank.

Cheques and payment orders drawn on a local bank or caisse populaire are cleared locally.

All such instruments are classified as to category and bank involved so as to reduce the workload of banks. On the other hand, the banks submit all payment orders in bulk to the Provincial Bank of Canada for immediate cash settlement. The orders are then debited to the central caisses populaires concerned, which look after their final distribution to the various caisses populaires.

The following chart shows the volume of instruments negotiated through the caisses populaires and the banks from May 1, 1959 to April 30, 1960.



...the ...
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The ten (10) regional centers have therefore set up regional or central caisse populations located in ten important centres of the province to negotiate on a day-to-day basis any such instruments drawn against a bank or caisse population.

The regional or central caisse populations render obvious services to affiliated caisse populations, but they also render a great service to the banks by submitting at one time all instruments to be cleared. Conversely, the caisse populations of Montreal and Quebec daily receive payment orders which are drawn on the caisse populations and have been negotiated through a bank. Cheques and payment orders drawn on a local bank or

All such instruments are classified as to category and

bank involved so as to reduce the workload of banks. On the other hand, the banks submit all payment orders in bulk to the Provincial Bank of Canada for immediate cash settlement. The orders are then debited to the central caisse populations concerned which look after their final distribution to the various caisses.

The following chart shows the volume of instruments negotiated through the caisse populations and the banks from



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Nom des institutions	1- Ordres de paiement présentés par		2- Chèques expédiés à	
	Nombre	Montant	Nombre	Montant
Les caisses populaires locales	2,371,828	\$ 393,313,460		
La Banque Canadienne Nationale	2,638,061	316,274,477	1,716,698	\$ 250,147,390
La Banque Provinciale du Canada	1,239,507	222,480,885	1,480,725	215,182,757
La Banque Royale du Canada	1,140,537	92,963,551	1,173,705	138,494,573
La Banque de Montréal	1,317,811	118,810,043	1,002,793	127,789,421
La Banque Toronto-Dominion	414,834	28,472,772	258,660	26,723,527
La Banque Canadienne de Commerce	586,283	49,474,857	332,197	42,538,922
La Banque de Nouvelle-Ecosse	230,202	21,458,491	157,389	15,312,854
La Banque Impériale du Canada	75,140	7,808,450	57,924	6,450,833
La Banque Mercantile	5,116	364,728	2,296	496,093
La Banque d'Epargne de la Cité et du district de Montréal	85,519	11,111,888	94,203	12,241,535
La Banque d'Economie de Québec	78,050	7,265,887	188,003	19,219,419
	1,296	155,612		
Totaux: transigé avec banques:	7,812,356	\$ 876,641,641	6,464,598	\$ 854,597,324
transigé avec caisses:	2,371,828	393,313,460		
GRANDS TOTAUX:	10,184,184	\$1,269,955,101	6,464,598	\$ 854,597,324
3- Chèques du gouvernement fédéral: (1)				
Allocations familiales			1,450,407	\$ 30,609,032
Pensions de vieillesse			385,436	21,584,800
Autres chèques du gouvernement fédéral:			1,380,158	65,752,631
TOTAUX:			3,216,001	\$ 117,946,463

(1) Numbers and amounts shown in section 3 are not included in section 2.

Regional or central caisses populaires are provided with the mechanical devices required for rapidly and efficiently discharging their duties as clearing-houses. They were the first to acquire bank proofing equipment. They also have equipment for micro-filming and endorsing and are fully equipped to ensure the efficient operation of this department.



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Toronto, Ontario

SECTION III

THE CAISSES POPULAIRES and MONETARY POLICY

The Bank of Canada exercises no direct control over the caisses populaires. Some people see an injustice and a danger in this fact. It is argued that

- a) the caisses populaires compete with banks and for that reason should be subject to the same restrictions and controls as the banks;
- b) the caisses populaires and other financial institutions outside the banking system, not being subject to the same restrictions as the banks, make it difficult to effectively control the money



SECTION III

THE CANADIAN MONETARY AND FINANCIAL SYSTEM

The Bank of Canada exercises no direct control

over the currency supply.

Some people are in the habit of saying that the Bank of Canada is a danger to the country. It is argued that

a) the various population groups

with banks and for that reason

should be subject to the same

restrictions and controls as

the banks.

b) the various population groups and other

financial institutions outside

the banking system, not being

subject to the same restrictions

as the banks, make it difficult to

effectively control the money



supply in the economy.

The first argument appears well founded. In fact, both banks and caisses populaires grant personal loans and mortgage loans. At first sight, it would seem that a substantial part of the over-payments realized by the caisses populaires on such operations are to be deducted from the profits that might be made by the banks if the caisses populaires did not exist. Such a claim, however, shows very little knowledge of the caisse populaire movement, because the savings directed to the caisses populaires are created, in a way, by the very existence of the caisses populaires, and particularly:

a) by the organization of a network of local caisses populaires designed to reach the small people directly, and covering over 400 municipalities or localities in the Province of Quebec, where no chartered bank has a branch office.

b) by an extremely active and efficient policy of popular training in thrift, through such institutions as the school banks, the young workers' banks, radio and television programs, etc.

c) by a loan policy directed to the needs of the economically weak, where the moral character of an individual is given more weight than his financial worth.



supply in the economy.

The final argument appears well founded. In

fact, both banks and savings banks have

loans and mortgage loans. At first sight, it would seem

that a substantial part of the over-liquidity resulted by

the classes population on such operations are to be

deducted from the profits that might be made by the

banks if the classes population did not exist. And

a claim, however, shows very little knowledge of the

classes population movement, because the savings directed

to the classes population are created, in a way, by the

very existence of the classes population, and

particularity:

a) by the organization of a network

of local classes population designed to

reach the small people directly, and

consequently, the classes population in

localities in the Province of Quebec,

where no organized bank has a branch

office.

b) by an extremely active and

efficient policy of popular financing

is that, in fact, the classes population

as the school system, the young workers,

banks, radio and television programs,

etc.

c) by a loan policy directed to the

needs of the economically weak, where

the moral character of an individual

is given more weight than his financial worth.



d) by a social philosophy and reputation for unselfish motives which is essential to create small savings. Briefly, savings deposited in the caisses populaires by the common people are quite different from bank savings. The two types of savings cannot be compared directly, nor can one say that savings deposited in the caisses populaires are diverted from the banks. It would be fairer to say that the caisses populaires add to the total value of savings deposits and increase the total volume of loans inasmuch as such loans depend on the prior existence of savings. The creation of such popular savings is, indeed, the main contribution of the caisses populaires to the Canadian economy. The caisses populaires and the banks are not competitors.

It is true that, because they are not subject to the regulations, the caisses populaires undermine the effective control of the money supply? Let us look at the facts and see what are the conditions and limitations of monetary policy in Canada.

From a factual point of view, it is necessary to analyze the degree of sensitiveness of the credit policies of the caisses populaires to monetary restrictive policies. To say that the caisses populaires are not affected by banking regulations is to utter a half-truth, because while they are not directly governed by banking regulations, they cannot escape the policies of the Bank of Canada.

In the table on page , we have shown the

(6) 08-11-2019, Wednesday

deposited in the various postulates are derived from the

...a no t t e g n o s

the effective control of the money supply, but no

of the Bank of Canada.



1 monthly progression of savings in the affiliated caisses
2 populaires and the net loans granted during the month
3 for the period from June 1957 to March 1962.

4 In graph 1, page , we have shown the curve
5 of monthly variations for loans and savings. It will
6 be seen from this first graph that from September 1959,
7 following changes in the Bank of Canada's monetary
8 policy, the progression of savings fell dangerously, with
9 a resulting drop in the volume of loans granted during
10 the month. In November and December 1959 and in January
11 and February 1960, the loans granted were even
12 negative, i.e. repayments were greater than new loans.

13 In view of the vital importance of this graph,
14 and in order to provide a better illustration, we have
15 removed the seasonal variations through the use of a
16 weighted variable average based on two superimposed
17 three-month periods. The new curves are shown in
18 Graph II, page . With the seasonal variations
19 removed, it becomes even more obvious that the caisses
20 populaires are strongly influenced by changes in the
21 monetary policy of the Bank of Canada. Looking closely
22 at Graph II, it is seen that from June 1959 to December
23 1959, the progression of savings was lower than net
24 monthly loans and that the two curves dropped sharply,
25 showing clearly that in a period of tight money, savings
26 are affected in the caisses populaires as elsewhere,
27 and that this will fatally have an impact on loans.

28 Perhaps there will be some surprise in finding
29 that in the year 1959, the drop in net loans did not
30 vary immediately with the progression of savings but was



monthly progression of savings in the unutilized savings
 population and the net loans granted during the month
 for the period from June 1959 to March 1960.
 In Graph I, page 1, we have shown the curve
 of monthly variations for loans and savings. It will
 be seen from this line graph that from September 1959,
 following changes in the Bank of Canada's monetary
 policy, the progression of savings fell dramatically, with
 a resulting drop in the volume of loans granted during
 the month. In November and December 1959 and in January
 and February 1960, the loans granted were even
 negative, i.e., repayments were greater than new loans.
 In view of the vital importance of this graph
 and in order to provide a better illustration, we have
 removed the seasonal variations through the use of a
 weighted variable average based on two unutilized
 three-month periods. The new curves are shown in
 Graph II, page 2. With the seasonal variations
 removed, it becomes even more obvious that the savings
 population are strongly influenced by changes in the
 monetary policy of the Bank of Canada. Looking closely
 at Graph II, it is seen that from June 1959 to September
 1959, the progression of savings was lower than the
 monthly loans and that the two curves dropped sharply,
 showing clearly that in a period of tight money, savings
 are affected in the savings population as a whole,
 and that this will naturally have an impact on loans.
 Between June 1959 and September 1959, the drop in net loans did not
 very noticeably with the progression of savings.



1 delayed a month or two. This delay is partly explained
2 by the loans approved by the credit committees of the
3 caisses populaires prior to the money restrictions and
4 concerning which the decision was known to the
5 borrowers, thus constituting an obligation to loan.
6 The delayed reaction may also be ascribed in some
7 measure to the purely economic fact, quite apart from
8 any policy of the caisses populaires, that consumer
9 needs (personal loans) and housing needs (mortgage loans)
10 are more stable in the economic cycle than industrial
11 and commercial demand, and cannot as easily be
12 restricted. In this regard, it may even be argued that
13 if a system of popular credit were too sensitive to
14 overall monetary policy, it would not take account of
15 the relatively rigid nature of popular demand and would
16 force such demand to suffer from the impact of a
17 restrictive monetary policy, an obviously undesirable
18 social result.

19 It is in order at this point to recall the
20 opinion of the governor of the Bank of Canada in his
21 annual report to the Minister of Finance for the year
22 1957: "It would, I think, be desirable that whenever
23 the banks find it necessary to allocate their resources
24 in the face of excessive total demand, they should limit
25 the rationing process to the field of large loans, and
26 should make it clear that this was the case." He went
27 on to say: "The experience of the past 2 or 3 years
28 suggests that much misunderstanding and difficulty
29 would be avoided in future if it could be made clear
30 that changing economical and financial conditions did not



...is that it is partly explained
by the loans reported by the credit committees of the
various provinces with the view of maintaining and
consolidating which the Government has been known to the
Government, thus contributing an important part of the
The delayed reaction may also be attributed to the
reference to the purely economic aspect of the problem
any policy of the Government, which is a necessary
needs (personal loans) and monetary needs (bank loans)
are more stable in the monetary system than bank loans
and commercial banks, and hence as a result of
restricted. In this regard, it was also suggested that
if a system of popular credit were introduced to
overall monetary policy, it would not have a harmful effect
the relatively rigid nature of popular demand and would
force such demand to suffer from the impact of a
restrictive monetary policy, as obviously inadvisable
It is in order at this point to recall the
opinion of the Governor of the Bank of Canada in his
annual report to the Minister of Finance for the year
1957: "It would, I think, be desirable that wherever
the banks find it necessary to allocate their resources
in the face of excessive foreign demand, they should limit
the rationing process to the field of foreign loans, and
should make it clear that this was the case." He went
on to say: "The experience of the past 5 or 6 years
suggests that such a differentiation and limitation
could be applied to foreign loans in such a way
that changing economic and financial conditions did not



1 affect the banks' willingness and ability to accomodate
2 credit-worthy small borrowers." The report clearly
3 shows the existence of "misunderstanding and difficulty"
4 resulting from credit restrictions on small loans.

5 ~~Caisses~~ Caisses populaires are always most sympathetic
6 to the small borrower, but in periods of tight money,
7 they are forced to curtail loans to protect their cash
8 position. It is in trying to protect their cash
9 position that the caisses populaires are indirectly
10 influenced by the policy of the Bank of Canada, usually
11 without even being aware of it. So long as the
12 caisses populaires maintain their liquidity standards,
13 they will be influenced by monetary policies.

14 In terms of controlling the money supply,
15 there is little danger that a type of credit whose
16 volume is related to the volume of popular savings
17 could produce sudden and massive increases that might
18 neutralize the effect of a reduction in bank credit.

19 In that respect, Canadian monetary policy is much more
20 vulnerable to international short-term capital
21 movements. In the years 1958 - 1959, the finance
22 companies, despite monetary restrictions, found an easy
23 source of supply in speculative capital, mainly from
24 American sources.

25 The same period showed that it is not easy
26 to control the money supply in a country located near
27 such a wealthy lender. A substantial part of the
28 massive influx of American capital into Canada at the
29 time was due, in fact, to the demand from provincial
30 and municipal governments and from institutions that



1 could no longer find the funds they needed in the
2 Canadian banking system. The alternative of borrowing
3 in the United States, where relatively low rates of
4 interest are favoured, renders the dream of absolute
5 monetary control quite unrealistic. The idea is even
6 dangerous when it results, as happened quite recently,
7 in raising the value of the Canadian dollar in the midst
8 of a recession. The fact that Canada is extremely
9 dependent on outside markets places a serious limitation
10 on restrictive monetary policies, as it does on the
11 stimulation of consumer spending through tax reduction.
12 All of which means that Canada is not the master of its
13 real and monetary position. For Canada, a full-
14 employment policy can be little else than a long-term
15 policy consisting essentially in developing its foreign
16 markets and promoting the best possible adjustment of
17 its production structure in relation to the demand
18 originating in the most active centres of international
19 growth. Viewed in this light, an attempt to control
20 popular credit through the Bank of Canada would, in its
21 effects, be completely unrealistic.



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 popular credit through the Bank of Canada would, in its
 effects, be completely unrealistic.



Aethercut & Young

Toronto, Ontario

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PRETS NETS ET PROGRESSION DE L'EPARGNE DANS LES CAISSES POPULAIRES AFFILIEES

MOIS	ANNEES	PRETS NETS	PROGRESSION DE L'EPARGNE	MOYENNE MOBILE PONDEREE	
				PRETS NETS	PROGRESSION DE L'EPARGNE
7	1957	\$ 1,967,117	\$ 1,806,093		
8	1957	2,237,129	4,920,596		
9	1957	2,111,051	4,586,416	\$ 2,095,718	\$ 4,363,734
10	1957	2,387,355	4,431,031	1,872,927	4,229,625
11	1957	1,312,229	5,005,015	1,247,033	3,661,400
12	1957	610,590	670,074	611,666	3,373,175
1	1958	820,327CR	3,148,937	264,414	4,412,469
2	1958	302,070	7,609,418	685,937	5,949,945
3	1958	1,703,162	8,701,418	1,644,784	7,460,207
4	1958	2,890,971	6,350,469	2,783,192	7,974,686
5	1958	4,127,815	9,968,902	3,702,536	7,524,567
6	1958	4,411,796	7,770,717	4,142,680	6,558,167
7	1958	4,630,687	870,608	4,321,766	5,458,539
8	1958	3,640,765	7,681,869	4,219,105	5,486,909
9	1958	4,770,901	5,640,958	4,138,931	5,544,933
10	1958	3,834,684	5,542,725	3,748,345	4,985,637
11	1958	3,356,092	5,661,733	3,069,542	3,813,581
12	1958	2,336,305	2,044,685CR	2,322,001	3,187,663
1	1959	624,723	4,699,994	1,862,765	4,208,898
2	1959	2,092,783	8,556,850	2,253,140	5,603,095
3	1959	2,676,453	5,094,038	3,164,987	6,818,299
4	1959	5,061,259	7,213,930	4,456,388	7,291,331
5	1959	5,522,724	9,841,030	5,285,689	6,556,096
6	1959	6,432,582	5,553,206	5,592,469	5,459,435
7	1959	5,338,894	1,146,530CR	5,294,190	3,773,138
8	1959	4,249,986	7,872,373	4,638,873	3,044,385
9	1959	4,743,168	705,650	3,614,004	1,847,475
10	1959	2,403,200	889,093CR	2,093,031	234,735
11	1959	348,730CR	1,690,298	377,837	1,001,918CR
12	1959	1,411,181CR	7,884,375CR	964,383CR	940,056CR
1	1960	2,280,476CR	2,753,122	1,463,565CR	1,436,403
2	1960	1,590,692CR	7,194,874	1,112,105CR	3,750,757
3	1960	21,817	4,356,965	252,525CR	5,554,042
4	1960	691,628	5,836,398	683,854	5,709,446
5	1960	1,740,424	8,099,823	1,419,326	4,952,399
6	1960	2,146,020	1,767,371	1,832,002	4,100,838
7	1960	1,855,549	707,622	2,093,927	3,747,626
8	1960	2,166,387	8,154,144	2,276,386	5,132,174
9	1960	2,913,460	3,662,920	2,405,292	5,894,043
10	1960	2,304,281	11,218,682	2,294,669	5,618,963
11	1960	2,110,365	2,604,356	1,866,630	3,495,652
12	1960	1,525,142	3,774,073CR	1,288,443	2,732,340
1	1961	103,729CR	5,095,663	997,292	4,002,478
2	1961	703,012	9,294,562	1,452,810	6,344,233
3	1961	2,720,146	7,089,935	2,663,681	8,124,259
4	1961	4,208,281	8,617,194	4,127,197	8,902,188
5	1961	6,138,837	10,929,208	5,169,456	8,805,371
6	1961	6,098,956	8,935,168	5,536,812	7,738,145
7	1961	4,773,981	4,266,012	5,440,444	6,579,574
8	1961	5,500,528	3,830,175	5,298,621	6,842,023
9	1961	5,304,249	9,958,243	5,159,528	7,402,739
10	1961	4,930,595	12,704,004	4,891,574	6,710,167
11	1961	4,386,783	584,446CR	4,227,428	4,036,352
12	1961	3,349,791	298,277CR	3,312,926	3,185,358
1	1962	1,521,483	3,315,314	2,768,386	4,678,958
2	1962	2,019,838	11,397,314		
3	1962	4,724,989	10,551,060		



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Royal Commission on Banking and Finance

Operation of the Monetary System in the U.S.A.

by

Woodlief Thomas

Hearings
held at
Ottawa

Vol.

32

Date.

July 19, 1962



Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.



ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
Ontario, on Thursday,
July 19th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H. A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



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Mr. J. H. Brown
Agriculturalist

Mr. Earl H. Brown
Investment Dealer
Montreal, Quebec

Mr. John G. MacKeen

Dr. W. A. Mackenzie
Agriculturalist
Montreal, Quebec

Mr. H. A. Hampton



Ottawa, Ontario,
Thursday, July 19, 1962.

--- At 9.15 A.M. the hearing resumed.

SUBMISSION OF
WOODLIEF THOMAS, ADVISER TO THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C., U.S.A.

THE CHAIRMAN: I will now call the meeting
to order.

This morning we have a submission from
Mr. Woodlief Thomas, Adviser to the Board of Governors
of the Federal Reserve System, Washington. We are
very grateful, indeed, to you Mr. Thomas, for coming
to Canada and for preparing a most illuminating brief.
We have all read it with the greatest of interest and
I am sure the members of the Commission, or most of
them, have questions they would like to ask you and
might discuss certain problems which may arise in
the course of the questions.

It is a very great honour to have you present
today in view of your distinguished career as an adviser
to the Board of Governors of the Federal Reserve System.
We welcome you most cordially and look forward to the
discussion with the greatest of interest.

MR. THOMAS: Thank you, Mr. Chairman. It
is a great honour for me to be here. I have always
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1 connected with them. I may say that in my brief and
2 in any comments that I shall make I shall endeavour
3 to present as nearly as possible what might be con-
4 sidered to be the views of the Federal Reserve Board
5 or the Federal Reserve System, but as in any organization
6 such as the Federal Reserve System where decisions
7 are made by a great many people, it is not always
8 possible to say what is the prevailing view. Also,
9 the situation changes from time to time and policies
10 and views which were adopted for one situation might
11 need to be varied for reasons which are not always
12 obvious, but I think the underlying principles will last.

13 There will be times when I will present
14 what might be called a personal view which grows out
15 of my own experience that may not necessarily represent
16 the prevailing views of the Federal Reserve and I
17 shall endeavour to indicate when those views are per-
18 sonal as much as possible.

19 Now, I have no further prepared statement
20 than what I have submitted and I am open to questions.
21 I have limited my submission mostly to the question
22 of the operation of the central bank, the operation
23 of the Federal Reserve System. I have not gone
24 much into questions of banking supervision, bank
25 regulations, chartering and various other questions
26 on banking or questions of other banking institutions
27 except in so far as they impinge upon the monetary
28 system. But I am more or less familiar with those
29 institutions and would be glad to endeavour to present
30 any views that I can on other aspects if the Commissioners

connected with them. I may say that in my brief and in any comments that I shall make I shall endeavour to present as nearly as possible what might be considered to be the views of the Federal Reserve Board or the Federal Reserve System, but as in any organization such as the Federal Reserve System where decisions are made by a great many people, it is not always possible to say what is the prevailing view. Also, the situation changes from time to time and policies and views which were adopted for one situation might need to be varied for reasons which are not always obvious, but I think the underlying principles will last. There will be times when I will present what might be called a personal view which grows out of my own experience that may not necessarily represent the prevailing views of the Federal Reserve and I shall endeavour to indicate when those views are personal as much as possible.

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1 wish to have them.

2 THE CHAIRMAN: Thank you, Mr. Thomas.

3 COMMISSIONER LEMAN: Mr. Thomas, it is a
4 privilege to me to have an opportunity to do what is
5 colloquially called "pick your brains" a bit. I would
6 like to ask you first a very broad question which
7 arises from your comments particularly on pages 20 and
8 21 of your memorandum regarding the broad objectives
9 of the monetary policy. You point out in paragraph 52
10 these broad objectives which you list as being four
11 main ones -- sustained economic growth and development,
12 reasonable price stability by avoiding inflation or
13 deflation, protection of the value of the country's
14 currency and at the same time maintaining the operation
15 of free markets in a free enterprise system.

16 You point out these are broad economic
17 objectives and not specifically only monetary policy
18 objectives. You do point out, however, a little
19 later in paragraph 54 that you wish to emphasize that
20 these various goals need not be viewed as conflicting
21 alternatives. It does seem to me, however, in reading
22 your memorandum in other places that you do visualize
23 that there might appear conflicts among these objectives.
24 Would you say that in general these are only of a
25 temporary nature or might they also be conflicting over
26 a fairly long run?

27 MR. THOMAS: My view is that the conflicts
28 are more apparent than real and of short term, that
29 you have a long sustained growth in economy and develop-
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1 ment and you need reasonable stability of the price
2 level in general and you need free markets and free
3 movement of prices, of course. Those are things
4 that cannot necessarily be assured by monetary policy.
5 Any attempt to solve problems that are not monetary
6 or financial in nature by money measures are more
7 likely to result in difficulties than in solutions.
8 I think many countries of the world today are suffering
9 from attempts to correct situations through monetary
10 means or fiscal means that are really of a structural
11 nature caused by difficulties in obtaining adequate
12 productivity and adjusting prices of individual products
13 and services to bring out the best demand from the
14 public and attempts to solve them by creating additional
15 liquidity have not had as much success as it was
16 supposed to have.

17 I have an idea that many countries with
18 balances of payment difficulties -- and I would include
19 the United States in that -- have found that they
20 cannot solve their own problems by just creating money.
21 You get to a point where the creation of additional
22 money means that the money will go out of the country
23 to other places and problems have to be solved by other
24 sorts of adjustments. I do not think there is
25 necessarily a conflict between, say, full employment
26 and stopping inflation, for example, as some people
27 like to say.

28 THE CHAIRMAN: Mr. Thomas, the acoustics
29 in this room are not too good, and if you would not
30 mind raising your voice a little bit --



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1 MR. THOMAS: I will do the best I can.

2 THE CHAIRMAN: We can hear very well but
3 there are a number of people in the audience in addition
4 to the Commission who are very interested in what you
5 have to say.

6 MR. THOMAS: As I told you once, my wife's
7 definition of economists is a bunch of gloomy guys
8 who get together and mumble. We have that proclivity.

9 COMMISSIONER LEMAN: I wonder if we could
10 close in a little bit on this business of possible
11 conflicts. The first one you mention is sustained
12 growth and development. Would you say that one could
13 ascribe some priorities to these objectives?

14 MR. THOMAS: I view the monetary policy
15 as really having somewhat limited specific goals.
16 The task of monetary policy when it gets down to it,
17 the central bank or monetary system, is to assure
18 that the economy has enough money to serve the purposes
19 of these broad goals and that is only one of the
20 essentials for attaining these goals and it is a
21 relatively narrow one, and money has to be defined
22 fairly narrowly. It is the cash balances that people
23 want to hold in banks or in currency. That is what
24 it really gets down to and the task of monetary policy,
25 of the central bank operation, is to try to figure out
26 what is the appropriate amount of money that is needed
27 at any one time.

28 Now, it is not an easy task. It is a task
29 that involves very difficult judgments and it involves
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1 a great deal of information and the amounts vary from
2 time to time for different reasons. But most of the
3 people who criticize monetary policy either expect it
4 to do a great deal more than it should be expected to
5 do, or want it to do a great deal more than it can
6 be relied upon to do, and there are dangers in attempting
7 to accomplish through monetary policy more than it
8 can perform.

9 You can create money for particular purposes
10 and extend credit for particular purposes, but the real
11 long run effect of that is not going to be the immediate
12 purpose for which the money was originally used; it is
13 going to be the uses that are made of the money after
14 it gets into people's hands and if people get more cash
15 than they want to hold, they are going to spend it for
16 a variety of purposes over which the monetary authorities
17 have no control. If they have less than they want to
18 hold, they are going to start saving and hold back on
19 spending. Under those conditions money is needed.
20 So that I think we have to view the task of the central
21 bank in this limited field and not in as broad a field as
22 many people do. I am not saying that it cannot have
23 very broad effect. It can have quite large effect
24 but the question is whether it should have and whether
25 those effects can be controlled once they start expressing
26 themselves.

27 COMMISSIONER LEMAN: Would you be inclined
28 to give these factors perhaps more of a negative value
29 than a constructive value? For instance, monetary
30 policy in the area of holding the economy in a state of

a great deal of information and the amounts vary from time to time for different reasons. But most of the people who criticize monetary policy either expect it to do a great deal more than it should be expected to do, or want it to do a great deal more than it can be relied upon to do, and there are dangers in attempting to accomplish through monetary policy more than it

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COMMISSIONER LEMAN: Would you be inclined

to give these factors perhaps more of a negative value



1 sustained growth and development, could monetary policies
2 do much in that field or is it more effective in the
3 field of the other objectives you have mentioned such
4 as prevention of inflation?

5 MR. THOMAS: Well, to have sustained growth
6 and development it is absolutely essential that there
7 be an appropriate amount of money. The question of what
8 is the appropriate amount of money is a question of
9 judgment. That is why we have an elaborate process
10 of decision-making by the monetary authorities. That
11 is a decision they are faced with every day because
12 we in Federal Reserve engage in hundreds of millions
13 of dollars of operations every day, sometimes buying
14 \$1 billion of government bonds within a week or a day,
15 or add to our holdings by that amount, or maybe buy
16 and sell more. Those are day to day operations to
17 take care of the fluctuating money needs of the economy.
18 They are not necessarily broad policy objectives, I mean
19 not necessarily designed to accomplish the broad
20 policy objectives except that they make it possible
21 to have day to day short term movements in the money
22 market without interfering with the broad policy objectives.

23 COMMISSIONER LEMAN: I wonder if any of the
24 other Commissioners want to argue about this point any
25 further.

26 COMMISSIONER MACKINTOSH: Would you say,
27 Mr. Thomas -- if I can just interject one question in
28 relation to the growth -- the appropriate amount of
29 money is that which anticipated the growth or simply
30 adjusted itself to the growth that has taken place?



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MR. THOMAS: Well, to have sustained growth?

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1 MR.THOMAS: I think you have to do a little
2 of both. The adjustment can be very quick in a properly
3 functioning monetary system but it has to be somewhat
4 anticipatory. In the Federal Reserve we have always
5 endeavoured to avoid adopting any single formula as to
6 a rate of growth in money because we have found that the
7 amount of money the public needs or wants varies quite
8 a lot from time to time under changing conditions.
9 It is affected by attitudes, expectations, the general
10 state of the economy and sometimes you need more,
11 sometimes you need less, relative to the volume of
12 economic activity as it is going on, or the rate of
13 growth that might be desired.

14 COMMISSIONER LEMAN: You told us, Mr. Thomas,
15 that one of the problems stemmed from the fact that
16 people expect monetary policy to achieve too much
17 towards these objectives and therefore those authorities
18 who are in charge of operating and formulating monetary
19 policy have to convince themselves from time to time
20 that there are conditions in the country which hamper
21 their ability to achieve the objectives through what
22 they can do. Is it therefore their duty at that time
23 to point this out and explain what in their view, are
24 the conditions which are basic and prevent the possibility
25 of using monetary policy in a useful way?
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MR. THOMAS: I think you have to go a little



1 That is a very difficult situation for the
2 central bank to be in. At times he has to do it, of
3 course, for alibi purposes, if for no other reason,
4 in order to explain why he cannot do the job that is
5 expected of him. He has to indicate what he considers
6 to be the real causes of failure of the economy to
7 perform as it should. To a certain extent that, of
8 course, has to be done, and sometimes it can cause
9 troubles.

10 COMMISSIONER BROWN: I wonder if I might ask
11 a question here, Mr. Thomas? We all talk about
12 inflation and deflation and the desire to avoid these.
13 I think we all feel we know when we have inflation and
14 when we have deflation, but is there any empirical
15 measure as to what constitutes inflation in your
16 opinion, or what is acceptable inflationary pressure
17 or deflationary pressure?

18 MR. THOMAS: It is not as simple as words
19 would imply. Basically and fundamentally, of course,
20 inflation is reflected in a persistent increase in
21 prices of commodities, but there are situations where
22 one might have what is really from the standpoint
23 of its effect in inflationary development which may
24 not be reflected in increasing prices. Let us take,
25 for example, the situation where there is a great
26 increase in productivity in the economy, and the
27 effects of productivity are not reflected in a decrease
28 in prices. The benefits are not passed along to the
29 consumer in purchases but are held back either in
30 profits or wasteful expenditures, or maybe in higher

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1 wages to a particular group. That sort of situation
2 can have a lot of the element of inflation. I think
3 we had something like that in the late 1920's. Prices
4 were not rising, at least commodity prices were not
5 rising but we had an increase in corporate profits
6 and a tremendous stock market speculation based on
7 credit, which was not, by ordinary definitions of
8 inflation, an inflationary situation, but it had
9 a lot of the characteristics of inflation and ended
10 in a complete collapse which lasted an awful long time
11 because of the unsound credit structures that were
12 built up during that period on the basis of anticipations
13 that could not be realized.

14 Generally speaking the measure of inflation
15 is a rise in prices of goods and services.

16 COMMISSIONER GIBSON: There is a very widely
17 held view that we are living in a world where there is
18 more of a bias toward inflation than there used to be
19 because of changes in the society. Most western
20 countries have as their prime objective placed more
21 emphasis on full employment and growth, and in this
22 kind of a world inflation is the more likely phenomenon
23 than it was, let us say, in at least part of the 19th
24 century. You said earlier that there were many
25 examples of countries that were trying to make monetary
26 policy do too much to offset situations which were not
27 really amenable to correction by monetary measures.
28 The question I should like to ask is, do you agree
29 with this view? First, perhaps you should comment
30 in regard to how much of an inflationary environment we



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1 should have, and if this is a sensible view, how can
2 monetary managers avoid finding themselves in the
3 position where they are frequently attempting to offset
4 developments and pressures in other directions which
5 they may not be able to fully or effectively offset,
6 but they still feel they ought to do what they can do
7 to cope with it?

8 MR. THOMAS: This is a personal view and
9 not the view of the Federal Reserve.

10 My view is more like that of a very optimistic
11 nation, that the world is not faced with a fundamental
12 inflationary situation. We have destroyed the productivity
13 of the world which was produced by the war, and which
14 filled a great many shortages.

15 The world in general is in a situation where
16 costs can be lowered and are being lowered, and it
17 may not even be possible to create inflation in this
18 situation. No one country can create inflation or
19 even provide its own nation with a stimulus if its
20 cost structure and price structure is out of line
21 with the rest of the world. No one country today
22 can determine its own interest rate level. We have had
23 a situation in the past two years where, in the United
24 States, we have had to refrain from letting interest
25 rates fall. You notice that I said, "letting interest
26 rates fall". We do not put them down, we refrain
27 from letting them decline. This might be appropriate.
28 The Germans have actually found it necessary to either
29 lower their rates or let them decline when they would
30 like to maintain a better money policy because of the



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a situation in the past two years where, in the United

States, we have had to refrain from letting interest

rates fall. You notice that I said, "letting interest

rates fall". We do not put them down, we refrain

The Germans have actually found it necessary to either

lower their rates or let them decline when they would

like to maintain a better money policy because of the



1 boom. The British have varied, from time to time,
2 because when they try to maintain/^astructure that is
3 out of line with the money markets of the world they
4 find that either they lose funds, or funds come in
5 in larger amounts than they want. So, I think it is
6 going to be exceedingly difficult to create inflation.
7 We can use inflationary measures but they will create
8 balance of payments problems unless the whole world
9 decides to use the same measures and at the same time.
10 I think we are in a situation where we have got to
11 look at the adjustments of individual prices, and
12 depend upon the adjustment of individual prices and
13 costs in order to maintain a properly functioning
14 economy rather than to use such stimulating measures
15 as credit and fiscal policies.

16 Now, it follows from that view also that we
17 may not need restrictive policies. It does not mean
18 we have to have a restrictive monetary policy. It
19 means that a restrictive monetary policy may no longer
20 be as necessary as it was during the post-war period
21 when the world was building up its capacity and we
22 required a large volume of savings to build up that
23 capacity. So I think we are in the situation, in
24 a sense, of better balance, but in one which will
25 be much more difficult to maintain through governmental
26 action.

27 COMMISSIONER GIBSON: Well, to narrow the
28 question down to a smaller field, what alternatives
29 do central banks have in countries where there are
30 inflationary pressures or policies being carried out

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COMMISSIONER GIBSON: Well, to narrow the
question down to a smaller field, what alternatives
do central banks have in countries where there are
inflationary pressures or policies being carried out



1 than to attack to some extent, these pressures to offset
2 them? Is this a good approach? You said there are
3 lots of examples of central banks trying to cope with
4 situations which are not really correctable or
5 amenable to monetary policy. Can they do much less
6 under the circumstances? If you have these pressures
7 in the economy, what do they do?

8 MR. THOMAS: Some of them have done other
9 things. Italy and Germany, and today France; those
10 countries in the end come out better than those which
11 have endeavoured to solve the problems by monetary
12 creation or budget deficits.

13 COMMISSIONER GIBSON: Or monetary restrictions?

14 MR. THOMAS: Yes, or monetary restrictions.
15 Italy and Germany maintained monetary restrictions
16 during the period of expansion and they are able now
17 to relax somewhat. Whereas, some other countries which
18 did not maintain restrictions keep finding themselves
19 in difficulties with balance of payments problems and
20 so on.

21 I do not know that it is a question of
22 alternatives any more. It is reflected very quickly
23 in the value of the currency and in the balance of payments,
24 and you are soon faced with a question of fundamental
25 adjustment trying to solve problems by re-valuation
26 downward or upward in some cases of the currency,
27 because the adjustments were not made in the individual
28 situations as they should have been.

29 COMMISSIONER GIBSON: What you are saying
30 is that if you have got a particular problem, being out



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COMMISSIONER GIBSON: What you are saying is that if you have got a particular problem, being out



1 of adjustment with the rest of the world in your own
2 economy which creates an excessive demand on your
3 resources you must have a broad attack on that problem,
4 not just a monetary attack. Supposing a broad attack
5 is not made in respect of the whole problem, what do
6 the monetary authorities do in these circumstances?
7 Is a restrictive policy proper if there is not a fiscal
8 policy that goes along with it?

9 MR. THOMAS: Well, I get back to what I
10 said earlier, that the task of the monetary authority
11 in any of these circumstances is to try to figure out
12 what is the appropriate volume of money to maintain
13 the economy with the resources it has, but not try to
14 vary it when you find that money is leaving the
15 country either because the interest rates are too low
16 or because prices are too high relative to those
17 abroad. This is a pretty definite sign that the
18 monetary means are not the answer, particularly in
19 a situation such as we have in the United States where
20 we have a slackening economy. We would like to
21 stimulate it. I think our administrators recognize
22 pretty clearly that there are limits as to how much
23 stimulation you can give to the economy without
24 suffering from a balance of payments problem.

25 COMMISSIONER LEMAN: Are the symptoms quite
26 recognizable when the problems that have to be solved
27 are basic, but are not amenable to monetary policy
28 solutions? Does it become quite clear? Can someone
29 stand up and prove to the people where the problem
30 is?

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1 MR. THOMAS: No, and of course that is
2 the difficulty. You can never get any group of economists
3 in a room together to agree on what really are the
4 causes of a situation, and we have that same problem
5 with government officials. It is a far more
6 complicated problem than just building statistical
7 models and saying: This is what we would like to
8 have. The question is, how can those things be
9 attained and it is not, to answer Mr. Gibson a little
10 more fully, all just a matter of what you can do about
11 it. Sometimes you just do not do anything about it
12 and you have to leave it to the market forces to work
13 this out and suffer the consequences. I think in the
14 end the consequences may be much less than if you
15 attempt to solve them by governmental measures which
16 interfere with the operation of the adjustments which
17 are essential.

18 COMMISSIONER LEMAN: You said a minute ago
19 that one of the basic problems was to keep in the
20 economy the proper amount of money needed for the
21 smooth functioning of that economy. Is it not possible
22 to say that this very narrow objective of maintaining
23 the proper amount of money in the economy has been
24 set aside?

25 MR. THOMAS: Well, we have lots of figures
26 and we use them and analyze the past and project them
27 so as to determine policies for the present and
28 future. We do endeavour to show by the figures what
29 has been accomplished and what might be accomplished,
30 but different people can get different things out of

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COMMISSIONER LEMAN: You said a minute ago

that one of the basic problems was to keep in the economy the proper amount of money needed for the smooth functioning of that economy. Is it not possible to say that this very narrow objective of maintaining the proper amount of money in the economy has been met already?

MR. THOMAS: Well, we have lots of figures

and we use them and analyze the past and project them so as to determine policies for the present and future. We do endeavour to show by the figures what has been accomplished and what might be accomplished, but different people can get different things out of



1 figures.

2 COMMISSIONER LEMAN: Can you tell us perhaps
3 what are the sort of questions that monetary authorities
4 would ask themselves in trying to arrive at this
5 answer?

6 MR. THOMAS: Well, let us take a meeting
7 of our Federal Open Marketing Committee, which I think
8 is one of the most impressive examples of the
9 processes of decision making that at least I have
10 ever been able to experience or see. This group meets
11 once every three weeks, approximately. There are
12 seven members on the board; there are five Reserve
13 Bank presidents who are members of the Committee, and
14 the meetings are generally or nearly always attended
15 by all the other Reserve Bank presidents. There are
16 19 people sitting around the table discussing the
17 situation. Before they come to that meeting they
18 have had memoranda prepared by the board staff in
19 respect of the economic situation and current
20 developments. They have had reports from the manager
21 of the Federal Open Marketing Account in New York
22 which operates the government security market, in
23 order to see what is going on there. In fact, they
24 have had daily reports as to what goes on in that
25 market and what has been done about it.

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1 Each Reserve bank president before he comes
2 there meets with his own staff and discusses the
3 situation and they reach the point of view as to what
4 may be going on, and the Committee meets and it has
5 a report from its manager as to the market situation.
6 Two economists of the Committee -- and I was an economist
7 to the Committee, I was one of them -- one will present
8 about a ten minute analysis of the principles of our
9 business development and economic factors, and these
10 are not simply just factual, they are analytical and
11 may end with a point of view and even at times a
12 recommendation for policy, and the other will present
13 an analysis of the financial developments. Now,
14 those are quite independent; the chairman or no member
15 of the Board tells us what to say in our own presentation.
16 It is supposed to be an objective economic analysis.

17 Then, each member of the Committee, each
18 person there, each member of the Board and each Reserve
19 bank president then presents his statement, and they
20 sometimes talk about the conditions in the different
21 federal reserve districts, but generally they impart
22 any important developments in their districts and end
23 up with a statement of a view as to what they think the
24 situation calls for and what the monetary policy is.

25 In the evidence the Chairman of the Board
26 attempts to represent his view or gives what he thinks
27 is the consensus that may develop in the presentation.

28 If there is any disagreement with that
29 consensus, the individual members of the Committee may
30 express it. In this process frequently one will find



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1 a change in view developing as you go around the table,
2 but more often -- because most of their statements
3 have been prepared before they get there -- the change
4 may come three weeks later, but if there is clear
5 evidence of an urgent situation a viewpoint can be
6 changed quite quickly in that process.

7 Now, as a result one comes out with a con-
8 sensus and even where there are differences of view,
9 there is better understanding all around of the different
10 areas of view that have been expressed. Individual
11 members may present different points of view.

12 The result of all this becomes public knowledge
13 at the end of the year; the Board has to publish a
14 record of policy actions by the Open Market Committee
15 and give the reasons for decisions reached, and any
16 member who votes against the decision that was reached
17 is entitled to and is expected to give the reasons
18 why he voted otherwise. Now, those public records
19 are the net result of the deliberations; in this process of
20 going around and each member talking, a consensus
21 is generally reached rather quickly.

22 COMMISSIONER LEMAN: I think you described
23 for us how difficult it is to arrive at the answer and
24 what processes people use to try and get some
25 kind of unanimity, et cetera, but the point of my
26 question was rather this; in trying to arrive at this
27 answer of how much money you need in the economy under
28 certain circumstances, do you have to look at thousands
29 of factors or are there, say, three or four very
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of factors or are there, say, three or four very
important basic factors to look at to try to arrive at



1 a conclusion?

2 MR. THOMAS: Well, I was leading up really
3 to answer your question, what are the factors that are
4 of concern to those people in reaching these decisions.
5 They view what is going on in production and employment,
6 in the various aspects of production and employment,
7 and also sales and inventories and any information
8 that may be available, the whole of the investments,
9 all the usual business statistics that are available
10 and also some information which we get that is not
11 statistical. I mean the contacts of the Reserve bank
12 presidents, Reserve bank people, the business man in
13 that community, they pick up a lot of straws in the
14 wind which may or may not be indicative, but they
15 are thrown into the picture and when they get down
16 to an ultimate decision as to what should be done,
17 the decision is based upon what amount of reserves
18 they need to be supplied to the banking system in
19 order to meet what is considered to be the necessary
20 monetary requirements, so we do have the measures of
21 the money supply and we have measures of what the
22 money supply has been in the past with protection and
23 as to what we think is an appropriate level under the
24 circumstances that are prevailing and which are con-
25 verted here into what would be the volume of reserves
26 that are needed to support that level, given the usual
27 seasonal variations, or variations that may be due to
28 some temporary factors such as a treasury financing
29 operation, or something of that sort, and the Committee
30 has before it some rather specific statistics on what

has before it some rather specific statistics on what operation, or something of that sort, and the Committee some temporary factors such as a treasury financing seasonal variations, or variations that may be due to that are needed to support that level, given the usual vented here into what would be the volume of reserves circumstances that are prevailing and which are con- as to what we think is an appropriate level under the money supply has been in the past with protection and the money supply and we have measures of what the monetary requirements, so we do have the measures of order to meet what is considered to be the necessary they need to be supplied to the banking system in the decision is based upon what amount of reserves to an ultimate decision as to what should be done, are thrown into the picture and when they get down wind which may or may not be indicative, but they that community, they pick up a lot of straws in the presidents, Reserve Bank people, the business men in statistical. I mean the contacts of the Reserve Bank and also some information which we get that is not all the usual business statistics that are available that may be available, the whole of the investments, and also sales and inventories and any information in the various aspects of production and employment. They view what is going on in production and employment, of concern to those people in reaching these decisions to answer your question, what are the factors that are MR. THOMAS: Well, I was leading up really



1 might be proper in the near future.

2 Now, these projections do not always turn
3 out to conform to what actually happens; they are not
4 presented as forecasts, they are presented as a sort
5 of guide or goal towards which the Committee might
6 operate in this short period of time.

7 Sometimes we present them for longer periods.
8 but just as a rough indication of where we think
9 the economy ought to be going in order to reach the
10 goals that are desirable.

11 We have great masses of figures; we have
12 an analysis of the flows of funds throughout the economy;
13 how much is borrowed by different sectors in the economy
14 and how much is lent by different sectors, and there
15 is planning as to where the money is going to and coming
16 from, and they even project all these details into the
17 future from time to time.

18 COMMISSIONER LEMAN: Might we say, Mr. Thomas, that
19 therefore it is not a question necessarily only of the
20 amount of money in the economy -- as you define "money" -- but
21 also the question of how this stack of money is used
22 at the time and is being used by the people?

23 MR. THOMAS: That is right; how it is being
24 used or is likely to be used is taken into consideration,
25 though, as one of the indicators of how much you need
26 to provide.

27 There are conditions when you need to provide
28 more because the money is not being used relative to
29 the level of economic activity, and there are other times
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1 when you need to provide less, and also it gets back
2 to how the money is provided.

3 Under our system -- as we bring out in
4 the submission -- the Federal Reserve control over
5 the amount of money is not precise or exact because
6 of the possibility that there are thousands of banks --
7 some banks may have reserves and not use them, they
8 may have excess reserves and hold them as excess
9 because they choose not to use them; other banks may
10 be short of reserves and will choose to borrow reserves
11 from the Federal Reserve.

12 Now, that creates additional money which
13 makes it unnecessary for the system to supply reserves
14 through open market operations. On the other hand,
15 when banks borrow they are under restraint, so that
16 at times the result of borrowing would be to exert a
17 strain on expansion, and that restraint might be
18 desirable under some conditions and it might not be
19 desirable, so the system has to make up its mind whether
20 you are going to relieve banks of the need to borrow
21 in order to obtain reserves that they want, or whether
22 you are going to make it necessary for them to con-
23 tinue to borrow and even to borrow more -- if they
24 want more -- than seems to be appropriate at the time.
25 So, these again are some of the questions of judgment,
26 but we do give them rather specific figures that they
27 can use as guides, rough guides to what they should do
28 in any particular week or day.

29 Every morning at eleven o'clock the manager
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1 at the Board -- I used to take that call -- and they
2 report on what the situation is in the money market,
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4 projected four weeks in advance by days what we consider
5 the amount of reserves in the amount of open market
6 operations will be necessary to maintain a given volume
7 of reserves for that period, and they change every day
8 because different factors come in but they are quite
9 definite measures that we use as guides from day to
10 day and week to week and month to month and year to
11 year.

12 COMMISSIONER LEMAN: So now we have three
13 factors; it is the amount of money, who holds the money
14 and, stemming from who holds it, how is it being used?
15 You have three variables here that make this process
16 possible.

17 MR. THOMAS: Yes, but from the standpoint
18 of the bank the thing that we can control is the amount
19 of money, and you have to take into consideration the
20 variations and these other factors in deciding what is
21 an appropriate amount of money under the circumstances.

22 Take the year 1959; it is a very important
23 example in history of monetary theory, I think. In
24 the year 1959 we had a booming economy and a definite
25 limit as to how far the economy could expand, because
26 we had a steel strike which limited the capacity to
27 expand. We also had a tremendous private demand for
28 credit, a record-breaking private demand for credit,
29 and tremendous budget deficits -- probably the biggest
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COMMISSIONER LEWIS: So now we have three factors; it is the amount of money, who holds the money and, stemming from who holds it, how is it being used? You have three variables here that make this process

MR. THOMAS: Yes, but from the standpoint of the bank the thing that we can control is the amount of money, and you have to take into consideration the variations and these other factors in deciding what is an appropriate amount of money under the circumstances. Take the year 1929; it is a very important

example in history of monetary theory. I think. In the year 1929 we had a booming economy and a definite limit as to how far the economy could expand, because we had a steel strike which limited the capacity to expand. We also had a tremendous private demand for credit, a record-breaking private demand for credit, and tremendous budget deficits -- probably the biggest



1 budget deficits we had ever had in a peacetime year --
2 coming along with a strong private demand for credit
3 and a booming economy.

4 Now, these credit demands were met.
5 \$60 billion was the total credit demands in that period
6 and they were met, but they were met with practically
7 no expansion in the money supply, with very little
8 expansion in bank credit -- and that was met by time
9 and savings deposit expansion; the money came out of
10 the savings of the public. Now, it took some fairly
11 high interest rates to draw it out, but it came.

12 I think this example shows that one can
13 finance a budget dividend with a high level of private
14 activity if you follow the appropriate monetary policy,
15 and that the existing rates function.

16 Now, they did the job and we maintained
17 as high a level of activity as could be maintained in
18 that year without an expansion of bank credit and
19 inflationary consequences.

20 Now, the years 1960 and 1961 presented
21 a different situation; for various reasons there was
22 a slackening in the economy and money was freely
23 available and credit reserves were available, banking
24 credit expanded but the private demands for credit
25 were less -- at least in 1960 -- and interest rates
26 went down; the money was there and was made freely
27 available.

28 COMMISSIONER GIBSON: I would like to ask
29 you a couple of questions on the limits and scope of
30 monetary action. On pages 32 and 33 there is quite



budget deficits we had even had in a peacetime year -- coming along with a strong private demand for credit and a booming economy.

Now, these credit demands were met. \$60 billion was the total credit demands in that period and they were met, but they were met with practically no expansion in the money supply, with very little expansion in bank credit -- and that was met by time and savings deposit expansion; the money came out of the savings of the public. Now, it took some fairly high interest rates to draw it out, but it came.

I think this example shows that one can finance a budget dividend with a high level of private activity if you follow the appropriate monetary policy, and that the existing rates function.

Now, they did the job and we maintained as high a level of activity as could be maintained in that year without an expansion of bank credit and inflationary consequences.

Now, the years 1960 and 1961 presented a different situation; for various reasons there was a slackening in the economy and money was freely available and credit reserves were available, banking credit expanded but the private demands for credit were less -- at least in 1960 -- and interest rates went down; the money was there and was made freely available.

COMMISSIONER GIBSON: I would like to ask

you a couple of questions on the limits and scope of monetary action. On pages 32 and 33 there is quite



1 a long quotation from the report of the Board of
2 Governors to the Commission on Money and Credit,
3 and at the end of the first paragraph on page 33 you
4 make the statement that, at least, the submission
5 to the Commission makes the statement:

6 "At times structural imbalances
7 develop that cannot be corrected by
8 general public policies."

9 I presume they mean any general public policies. Would
10 you care to talk about this structural imbalance
11 and the sort of thing which really is right in the
12 range of monetary policy?

13 MR. THOMAS: Well, I think the striking
14 example, of course, in the present situation is the
15 question of what is a proper wage level. We have
16 had a situation for years where wages have steadily
17 increased in certain areas and which have probably
18 created some distortion in our income distribution
19 and have prevented price adjustments that were
20 essential to maintain the demand for certain products.



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1 Another example would be what the automobile
2 industry did in 1957-1958 when the Americans had
3 automobiles which they did not want and they suffered
4 the consequences. The plan in the reduction of
5 automobiles and the unemployment that developed in
6 Detroit at that time could not have been solved by
7 stimulating housing in Detroit, for example. They
8 had houses available; home building.

9 The other examples are in the international
10 field, that Western Europe has a definitely lower
11 wage level than our level. It was not too important
12 in the world markets until the Europeans had built
13 up their productivity -- their output -- up to the
14 point where they were meeting their domestic demands
15 and were able to enter export markets. When they
16 became able to enter export markets they became
17 definitely strong competitors, and whereas we had had
18 rather a monopoly of supplying certain types of goods
19 to the world we found ourselves facing competition.

20 I don't think those problems can be solved
21 by monetary policy. Questions of agriculture develop-
22 ment: We have had a tremendous increase in productivity
23 in agriculture. That has not been reflected altogether
24 in the prices of agriculture products because they
25 have been supported, and the result is we are building
26 up surpluses; we are producing goods that nobody
27 will buy at the prices that are being asked. That
28 cannot be solved by monetary policy.

29 COMMISSIONER GIBSON: We seem to have quite
30 a few structural problems in North America at this



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COMMISSIONER GIBSON: We seem to have quite

a few structural problems in North America at this



1 time?

2 MR. THOMAS: I don't think it is limited
3 to North America. I was in Chile two weeks ago and
4 they have a very high cost structure. I think I
5 would say that some of the British problems are of
6 a similar nature -- problems in the United Kingdom.

7 COMMISSIONER MACKINTOSH: Would you care
8 to add any Canadian problems?

9 MR. THOMAS: I will let you speak for that.

10 COMMISSIONER LEMAN: This business of
11 economic growth and development -- that is not a
12 simple objective, is it?

13 MR. THOMAS: It certainly is not.

14 COMMISSIONER LEMAN: Growth can be quite
15 uneven in the economy?

16 MR. THOMAS: Growth can be uneven and it
17 involves constant adjustments in the structure of the
18 economy, and those adjustments have to take place.
19 New products develop to take the place of old ones,
20 and the market has to make those adjustments and try
21 to maintain a decadent industry. It does not necessarily
22 solve the basic problems. It does not give you growth.
23 It does not give you maximum sustainable growth.

24 COMMISSIONER GIBSON: You take all these
25 structural problems into account in your thinking in
26 determining monetary policy, though you don't aim
27 policies to suit the fact; is that a fair statement?

28 MR. THOMAS: Yes, I think that is a fair
29 statement, but I think in general the guides of
30 monetary policy -- meaning by "monetary policy" the

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monetary policy -- meaning by "monetary policy" the



1 amount of bank reserves that are supplied -- can in
2 a brief period be somewhat more exact. All you need
3 to do is just to say that you cannot expect to
4 stimulate the economy when these other conditions
5 exist, but in general the excesses are likely to be
6 reflected in one of your indicators or another. Of
7 course, the balance of payment situation is a clear-cut
8 one: When funds start moving out of the country, or
9 you get an unfavourable balance of trade, it is an
10 indication that there is something wrong somewhere.
11 You can do what you can by interest rate adjustments,
12 but if you are in the situation where you want low
13 interest rates and are losing funds, or low interest
14 rates for domestic purposes, and money is going out,
15 it seems to me to be a clear indication there is
16 something structurally wrong in the economy. The
17 money stimulus is not working.

18 COMMISSIONER GIBSON: Is it possible that
19 the low interest rates might not be appropriate in
20 those circumstances?

21 MR. THOMAS: There are too many negatives
22 in that statement.

23 COMMISSIONER GIBSON: In these circumstances
24 might it be possible that the policy of maintaining
25 low interest rates was not altogether appropriate?
26 I guess that is a banker's statement too.

27 MR. THOMAS: Yes, that is right. Chairman
28 Martin in Congress two days ago said there is a limit
29 how far we can go in pushing interest rates as a
30 solution for certain problems. The point is reached

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1 where money just lies there and is not used, or it
2 may be used for purposes that are not for the best
3 interests of the economy.

4 COMMISSIONER GIBSON: Would you care to say
5 anything about how you think some of these major
6 structural problems should be tackled? I realize
7 it is outside the sphere which you have allotted
8 yourself.

9 MR. THOMAS: Yes, it is outside. I don't
10 know that I have the answer. I would be inclined more
11 to rely upon market forces to adjust it. All I can
12 say on this subject is, just don't think you can solve
13 them by monetary and physical measures. If you attempt
14 to you are likely to fail and may even create more
15 difficult situations.

16 COMMISSIONER GIBSON: You have referred on
17 more than one occasion to the policies adopted by
18 Germany and France and Italy: Is that the kind of
19 direction you are thinking in?

20 MR. THOMAS: Yes, under the conditions that
21 existed in the post-war world they maintained
22 restraints on expansion. They didn't need to stimulate
23 expansion: It developed on a situation. Also, their
24 wages did not rise as fast. They are rising now.
25 Maybe they will all come into adjustment some day.

26 COMMISSIONER GIBSON: One other question
27 on the limits of monetary policy. This same statement
28 on page 33 says: "It lies beyond the powers of the
29 Federal Reserve to promote growth of particular
30 segments of the economy without affecting other segments



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on the limits of monetary policy. This same statement
on page 35 says: "It lies beyond the powers of the
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segments of the economy without affecting other segments.



1 in ways that may or may not be desirable. It is
2 likewise difficult or impossible to restrain particular
3 activities without exerting general restraint".

4 Your point of view is the quite basic principle that
5 it must be a general approach.

6 MR. THOMAS: Yes.

7 COMMISSIONER GIBSON: Not a detailed and
8 selective one?

9 MR. THOMAS: To use monetary policy for
10 selective purposes cannot be recommended, I think.
11 I was in Sweden in 1955 and they had just appointed
12 a new head of the central bank who was a Socialist,
13 and he immediately started following a more restrictive
14 monetary policy. I talked to one Labour Union economist --
15 and the Labour Union economists in Sweden are very
16 broad-minded, well informed people because labour
17 really runs the government and they have a high sense
18 of responsibility -- and he said, "We don't object to
19 high interest rates. We just want low interest rates
20 for housing." I endeavoured to explain to him that
21 if you get low interest rates for housing by govern-
22 mental action you are going to defeat your purpose
23 of restraint on other types of credit, because private
24 money won't go into housing; it will just go into
25 other things. So that, by pumping money in at one
26 place, after it gets there it is going to come out
27 somewhere else and be available for other uses. I
28 think the same thing is true of restraints. It is
29 very difficult to limit the flow of funds into one
30 particular use. We would have various devices -- we



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1 played around with them ourselves in the late 40's --
2 and they are called special reserve requirements or
3 marginal reserve requirements where the banks are
4 required to hold certain particular types of assets
5 relative to their total assets, like government
6 securities. In Chile they can hold agricultural
7 credits, and I think in Iceland they hold agricultural
8 and fishery credits. Those are really not restraints.
9 That is really a type of credit expansion, as long as
10 banks can obtain a supply of those assets and can
11 also obtain the cash reserves from the central bank
12 to expand credit indefinitely. That is not a restraint
13 on credit expansion.

14 Take the simple case of treasury bills:
15 I think you have an understanding you hold 15 per cent
16 in treasury bills, and if there are treasury bills
17 available in the market the bank can go out and buy
18 treasury bills and then can turn around and sell those
19 to a dealer and the dealer can sell them to the
20 Bank of Canada to get 8 per cent cash. You can
21 expand credit indefinitely on that basis. You have to
22 hold a little more cash, you have to hold a little more
23 treasury bills, but it is still part of the process
24 of credit expansion.

25 It seems to me the basic principle of
26 reserve administration we have always to keep in mind
27 is that to really restrain credit expansion the available
28 supply of reserve assets has to be limited. The banks
29 are required to hold certain reserves. The assets
30 which they acquire to build those reserve requirements



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1 have to conform fairly closely to the amount they
2 are required to hold otherwise they could go out
3 and get more; as long as they can go out on the
4 market and buy more they are creating money every time
5 they do it. That is the reason the cash reserve
6 requirement, it seems to me, is really the basic
7 restraint that has to be exercised.

8 I think the British are confused on that;
9 but they are right as long as they limit their issues
10 of treasury bills, but now what is happening in England
11 is that the market itself is beginning to hold more
12 and more treasury bills, so the banks are able to
13 increase their holdings of treasury bills independently
14 of what the government may decide to do as to the
15 supply of bills.

16 That is the reason we place most emphasis upon
17 the cash or reserve requirement, or the reserve
18 requirement for holding a balance in the Federal
19 Reserve Bank, because Federal Reserve has complete
20 control over that -- I say, "complete" within the
21 limitations of the ability of banks to borrow from
22 the Federal Reserve, which can be restrained to a
23 considerable degree.

24 COMMISSIONER MACKINTOSH: May I go back to
25 something you said a few minutes ago, Mr. Thomas.
26 Could I fairly infer from your comments on Europe
27 that some of our troubles in North America, you would
28 think, have arisen because we have not been restrictive
29 enough during the period of great expansion?

30 MR. THOMAS: I don't know that I would

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MR. THOMAS: I don't know that I would



1 necessarily say that. I don't think we were restrictive
2 enough in the early post-war years. I think we could
3 have been more restrictive without holding back
4 physical growth. A lot of it was reflected in the
5 price increases without stimulating any more growth,
6 but I don't know that that is the cause of the present
7 situation with respect to Europe. I think it is
8 simply that it took time for Europe to get into a
9 position where they could be competitive, and in the
10 meantime that we had built up some price structures
11 that because we were not restrictive enough made it
12 more difficult for us to compete with them. They had
13 about as much inflation as we had in that period --
14 maybe a little more -- but their price structures
15 are basically lower than ours; their cost structures
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17 the goods until recently, but it does mean that we
18 have to be prepared to make the necessary adjustments
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20 --- Short recess.

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1 THE CHAIRMAN: We shall now resume.

2 COMMISSIONER GIBSON: Mr. Chairman, I would
3 like to ask Mr. Thomas a few questions about the
4 effectiveness of the monetary policy -- how it works
5 and how it takes hold. On page 29, paragraph 72 at
6 the very end of the second quoted paragraphs under
7 that reference the statement is made that --

8 "All of this means that, although
9 monetary policy actions have marginal
10 effects of significance, assessment of
11 these consequences is generally difficult
12 and sometimes impossible. It must be to
13 some extent a matter of judgment".

14 Now, you have been in the monetary policy business
15 for a long time, Mr. Thomas, and I just wonder if
16 you can tell us about what the Federal Reserve system
17 has done over the years to assess the influence of
18 monetary policy, how it actually works out and how
19 effective it is?

20 MR. THOMAS: If you sit there and see the
21 day-to-day operations sometimes you think the
22 effectiveness is awfully fast as measured by the
23 money market itself. In fact, frequently monetary
24 policy, the market will reflect policies that have not
25 even taken place yet in anticipation or just on the
26 basis of rumours. But of course that is a more
27 superficial appraisal, it is the immediate reaction
28 of the market to actions or lack of actions or
29 expectations of actions. What you are getting at, I
30 take it, is what is the ultimate effect upon the broad



THE CHAIRMAN: We shall now resume.

COMMISSIONER GIBSON: Mr. Chairman, I would

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1 goals of policy?

2 COMMISSIONER GIBSON: Yes.

3 MR. THOMAS: Yes, we are constantly
4 endeavouring to appraise the effects taking into
5 consideration all the other factors in the economy.
6 Take the description that I previously gave of what
7 seemed to happen in 1959.

8 That is an example of an appraisal of the
9 effectiveness of the policy. I happened to think
10 that it was a very good example of how monetary policy
11 can function in a situation when you have the economy
12 operating at what was in effect capacity and very
13 large credit demands both from private activities
14 and from government and the policy served its purpose
15 of preventing expansion in bank credit.

16 I am thoroughly convinced that if we had
17 had any easier policy at that time we would have had
18 quite an expansion of bank credit, probably an unhealthy
19 one and the reaction that occurred in 1960 would have been
20 much more serious and prolonged.

21 COMMISSIONER GIBSON: Well, to put it a
22 little differently, how would you say monetary policy
23 works? On page 48 in paragraphs 115 and 116 you
24 have a reference to interest rates and you say:

25 "To a limited extent, the impact of
26 Federal Reserve policies on the economy
27 is effected through interest rates."

28 And then in 116 you quote the Board's submission
29 to the Commission on Money and Credit and in the first
30 paragraph in that quotation you suggest that interest



Goals of policy?

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2 is your sort of thinking on how this monetary action
3 pans out and how it changes decisions. You have
4 control, as you say, of the cash reserves in the
5 banking system. This is your primary weapon. How
6 do you believe this goes out and changes decisions
7 to extend capacity? Is it the interest rate structure
8 that is the main factor in this?

9 MR. THOMAS: Well, I view interest rates
10 primarily as the net result of all factors of demand
11 for money and this available supply of loanable
12 funds at any time and the availability of money through the
13 banking credit system. Credit from the banking system
14 is an important marginal influence there and, of course,
15 affects interest rates. But the more essential feature,
16 of course, is the degree of demand that there is for
17 money. Under certain conditions you have a very strong
18 demand for money and providing additional funds through
19 the banking system may not necessarily reduce interest
20 rates. It may keep them from rising as much as they
21 otherwise would. Of course, if you really attempt
22 to hold down the rates under such conditions by
23 pumping money out you could get an inflationary
24 situation which would stimulate demand and if prices
25 start rising then a rise in interest rates would be
26 inevitable particularly if people think that this
27 may be prolonged.

28 Higher interest rates always go with
29 inflation. In Germany in the 1920's they pumped money
30 out as fast as they could and interest rates kept going



rates are very important. What I am trying to get is your sort of thinking on how this monetary action pans out and how it changes decisions. You have control, as you say, of the cash reserves in the banking system. This is your primary weapon. How do you believe this goes out and changes decisions to extend capacity? Is it the interest rate structure that is the main factor in this?

MR. THOMAS: Well, I view interest rates

primarily as the net result of all factors of demand for money and this available supply of loanable funds at any time and the availability of money through banking credit system. Credit from the banking system is an important marginal influence there and, of course, affects interest rates. But the more essential feature, of course, is the degree of demand that there is for money. Under certain conditions you have a very strong demand for money and providing additional funds through the banking system may not necessarily reduce interest rates. It may keep them from rising as much as they otherwise would. Of course, if you really attempt to hold down the rates under such conditions by pumping money out you could get an inflationary situation which would stimulate demand and if prices start rising then a rise in interest rates would be inevitable particularly if people think that this may be prolonged.

Higher interest rates always go with inflation. In Germany in the 1920's they pumped money out as fast as they could and interest rates kept going



1 up and nobody would lend and nobody would borrow.
2 Interest rates have an effect in bringing demand and
3 supply into equilibrium. But independently of monetary
4 policy we want to have an economic situation in which
5 interest rates perform their function in allocating
6 funds within the structure of the economy. As I
7 said, to try to keep your interest rates for housing
8 and let them go up for other things is not generally
9 possible. It can be done to a limited extent but it
10 is done at the sacrifice of some of the other forces
11 in the economy.

12 COMMISSIONER GIBSON: Have you in the
13 Federal Reserve Board of Governors done much
14 investigation into how changes in interest rates affect
15 business decisions?

16 MR. THOMAS: Oh, I do not know of any detailed
17 studies of it but just some analytical deductive
18 analyses. I am pretty well convinced that they do
19 have an effect. It may be a marginal effect and again
20 take 1959 we certainly found a very striking example
21 of what 5 per cent on short-term government securities
22 would do in that sort of situation. It brought money
23 into the credit structure out of savings. It
24 induced people to at least shift their funds around
25 from one use to another and no doubt encourage a larger
26 amount of savings certainly in financial forces.

27 COMMISSIONER GIBSON: You think it did
28 increase the current rate of savings?

29 MR. THOMAS: I think it did, yes. In
30 fact, it may be one reason for the down-turn in 1960,



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3 usual national economic account statistics because
4 the ratio of savings to income does not change to me
5 because if savings increase your incomes are likely
6 to go down and then savings will come down so before
7 you get through your ratio by the time you get the
8 quarterly figure, does not change very much because
9 the very fact of an increase in the rate of saving
10 would be to reduce incomes and therefore reduce the
11 actual volume of savings almost correspondingly.
12 Besides this, savings figures are residual anyway
13 and you may never know what they are. Our analysis
14 is more generally based upon the shift from financial
15 assets to fiscal assets of savings, from banks to
16 securities. All those have some effect on the
17 economy.

18 COMMISSIONER GIBSON: Do you feel there is
19 a good deal of evidence that the entire interest
20 rate structure produces perceptible effects on the
21 current rates of savings?

22 MR. THOMAS: I think there is a reasonable
23 basis for concluding they do but aside from that
24 you have to consider the alternative, what would happen
25 if, given a situation in which the demands for money
26 are always relative to the supply of savings, if you
27 try to prevent interest rates going up by official
28 policies what would be the result. You always have
29 to know what would happen if what had happened had
30 not happened and to attempt to hold down interest rates



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2 is tending to put them up may have highly undesirable
3 consequences and then in the end not succeed in holding
4 them down. The same thing is true in trying to hold
5 them up in a period of slack. You may again not be
6 able to do it.

7 COMMISSIONER GIBSON: To look at the question
8 in the light of interest rates again, some people have
9 expressed the view -- and this has been expressed
10 before the members of the Commission a number of
11 times -- that the kind of interest rate adjustments
12 that are necessary to produce desired effects over
13 a reasonable period of time are so great that their
14 consequences offset the advantages. Are you prepared
15 to say something about this general subject? I take
16 it you do not agree with that approach?

17 MR. THOMAS: In general I do not agree
18 because I do not think we know. All economics is
19 a marginal price analysis, what is the effect of prices
20 at the margin and for an economist to say that prices
21 do not matter seems to me to say he is not an economist.

22 COMMISSIONER MACKINTOSH: It destroys his
23 occupation?

24 MR. THOMAS: Yes, because economics is a
25 matter of the adjustments that take place in supply
26 and demand and in prices in order to bring about
27 equilibrium. To go out and deliberately try to
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1 tending to force them up would seem to me to be a
2 futile gesture too. So I view interest rates not
3 so much as one of the tools of monetary policy but
4 as one of the results of the situation that results
5 from the availability of funds that monetary policy
6 supplies relative to the demands that are very relative
7 to the availability of private savings. The amount
8 of bank credit that is supplied in any one year is
9 a relatively small portion of the total flows of funds
10 through the Federal market.

11 In our economy bank credit varies from
12 \$5 billion to \$10 billion, \$15 billion a year and
13 a bit of that is really savings but your total credit
14 is \$40 billion to \$60 billion in a year. That is the
15 net increase in any one year and interest rates have
16 a great deal to do with the allocation of all that
17 total volume of funds that are constantly flowing
18 through the money stream. It is a little risky to try
19 to manipulate an interest rate structure.

20 COMMISSIONER GIBSON: When you think of
21 monetary policy you are thinking of controlling cash
22 reserves in the banking system and the interest rates
23 results on this flow from that thinking, they are
24 not a deliberate effort to influence the interest rate
25 structure?

26 MR. THOMAS: That would be my view. There
27 are people in the system who at times do have a desire
28 to control the interest rate structure. Certainly
29 in the past year or year and a half that has been one
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1 interest rates from declining because of the balance
2 of payments situation and the amount of, let us say,
3 volatile funds that were shifted from market to market.

4 Now, that has been done and short-term
5 interest rates have been kept at a higher level than
6 they would have been under similar domestic circumstances
7 without a balance of payments problem. But the net
8 effect of that on the domestic economy is rather
9 difficult to say. I do not think it has been particularly
10 unfavourable because we have an interest rate structure
11 level that is moderately low considering the state
12 of the world. We have maintained a high level of
13 short-term interest rates.

14 COMMISSIONER GIBSON: One of the problems
15 we have as Commissioners is to try to see just how
16 this process works. You control bank cash and it
17 has an effect on the short-term rate. If you could
18 say a little more about business decisions and how
19 they react in the face of changes in rates and individual
20 private decisions to spend or to save this would be
21 very helpful because we get out in this area, you know,
22 and people build up the philosophy that people do not
23 pay much attention to changes in interest rates and
24 others say this is the whole thing.

25 RM. THOMAS: I think it is more availability
26 than rates but I say that rates necessarily have an
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1 of securities are held back for a period. Now, to
2 what extent that affects their actual spending on
3 public works etc., is another question but it
4 unquestionably has some influence and as I say economics
5 is not an all or nothing business. Again I say it is
6 the marginal decisions that are significant. A
7 difference of one per cent or two per cent in a rate
8 can make a tremendous difference in the state of your
9 economy. I am sure they do have some influence.

10 COMMISSIONER MACKINTOSH: You say there is
11 some question as to how far this works in this example
12 in the, say, postponement of public works but this
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3 COMMISSIONER MACKINTOSH: is in respect of the
4 matter of economic control, and elsewhere we are apt
5 to become rather vague and sometimes fall back on
6 the argument, which I think you nearly made, while
7 you cannot prove that central bank action restrictive
8 or otherwise was very effective, yet there was an over-
9 whelming presumption that if it had acted in the
10 opposite direction in the same circumstances they
11 would have created disaster, which is a kind of modest
12 compliment to the central bank operations.

13 MR. THOMAS: Yes, it is easy for them to
14 do the wrong thing, but to the extent to which monetary
15 policy is successful there is no evidence that it was
16 needed. But, it is also not altogether a question
17 of postponing a fiscal operation. It is a matter of
18 how that operation was financed; whether you finance
19 it by the creation of bank money, or by drawing in
20 savings to the extent that these municipalities continue
21 to offer their securities, but they attract savings
22 from some other use instead of creating bank money,
23 and some other borrower is deprived of money.

24 Frequently the view is expressed that
25 monetary policy has more effect in respect of home
26 building than anything else. I think that is an
27 example rather than an argument one way or the other,
28 because it happens that in the Eastern United States
29 home building has been something in which there has
30 been quite a sustained demand, and there has also
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1 when you run into a period of easy money the money flows
2 there because there is a demand. When you run into a
3 period of easier money there, there has been a slow
4 demand from other borrowers. When you run into a
5 period of heavy demand from other borrowers there is
6 less available for building. There may be more funds
7 available in the aggregate but there is less for building.
8 This is not necessarily a reflection on monetary policy,
9 it is simply a reflection of the variation in other
10 demands for credit.

11 COMMISSIONER GIBSON: You say you think that
12 it is more availability than rate of interest in the
13 way monetary policy effects spending and investment
14 decisions? Am I correct in thinking that this is
15 another way of saying that the market is not a perfect
16 one, because if it were perfect presumably availability
17 would be reflected in rate of interest?

18 MR. THOMAS: I would not want to say the
19 market is perfect by any means, but I think availability
20 is reflected in rate of interest; availability relative
21 to demands.

22 COMMISSIONER GIBSON: But you suggest that
23 some purchasers are not gone ahead with because the
24 funds are not available and have been drawn off in
25 another direction?

26 MR. THOMAS: And again because they are
27 not available at the rate of interest that they are
28 willing to pay.

29 COMMISSIONER GIBSON: And accustomed to paying?

30 MR. THOMAS: And accustomed to paying, yes.



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4 ceiling on the rate of interest that can be charged,
5 and that is another reason for this effect in the
6 building situation. A lot of our mortgage lending
7 has been done through these guaranteed mortgages,
8 and when the rate of interest rises above the ceiling
9 then the money just does not go there. It goes into
10 what we call conventional loans to some extent, but
11 there is an institutional obstacle there, and that
12 is another way of saying there is not a perfect market.

13 COMMISSIONER GIBSON: Well, how about changes
14 in capital values? This is really part of the
15 interest rate structure?

16 MR. THOMAS: Yes.

17 COMMISSIONER GIBSON: When the rate of interest
18 changes, values change. Do you regard this as a very
19 important way in which monetary policy works and the
20 decisions, negative or otherwise, to which it gives
21 rise?

22 MR. THOMAS: This is a very important way
23 in which the money market and capital market works,
24 yes.

25 I would hesitate to say, to admit, to agree
26 or assert that all changes in interest rates are due
27 to monetary policy. There is a proclivity for saying
28 when we have high interest rates it is due to tight
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1 rates under certain circumstances would be to have
2 a monetary policy which would be unsuitable for the
3 situation.

4 COMMISSIONER MACKINTOSH: Yes, but monetary
5 policy consists not only in doing certain things, but
6 in refusing to do certain things.

7 MR. THOMAS: That is right.

8 COMMISSIONER MACKINTOSH: And if the state
9 can raise the interest rates which you think appropriate,
10 then I presume monetary policy permits that to happen?

11 MR. THOMAS: Yes, let us say it can prevent
12 that from happening only by adopting a policy which
13 would not be appropriate under these circumstances.

14 COMMISSIONER MACKINTOSH: So it cannot at
15 any time wash its hands of what happens?

16 MR. THOMAS: For a little while, yes.

17 COMMISSIONER MACKINTOSH: It can justify
18 the lack of action?

19 MR. THOMAS: Yes, but later on it comes
20 back and hits you.

21 COMMISSIONER MACKINTOSH: Yes, I am not
22 arguing that this is not appropriate, I am just
23 arguing that it is not an abrogation of monetary policy.

24 MR. THOMAS: There is a tendency to blame
25 whatever happens on the wrong monetary policy.

26 COMMISSIONER GIBSON: I was going to ask
27 you a question that is related to this subject, but
28 in a little different area. Perhaps one of the
29 other Commissioners would like to carry on.

30 COMMISSIONER LEMAN: There are a couple of



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4 changed very much from time to time?

5 MR. THOMAS: I said the statistics do not
6 prove it, but I do not know what is the right con-
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16 I do not know what the answer is, but I am not con-
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18 figures and say there has been no change in the savings
19 ratio and savings have no influence.

20 COMMISSIONER GIBSON: Do you regard this
21 as a sort of inflexibility that creates a problem of
22 policy, or the other way around?

23 MR. THOMAS: No, I do not regard it as
24 an inflexibility that creates a problem. I think
25 there is less inflexibility than appears from the
26 statistics.

27 COMMISSIONER GIBSON: Now, in this question
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1 at policy level and the end results in the economy?
2 In asking ourselves how effective in point of time it
3 is should we distinguish between the field of capital
4 goods and the field of consumption?

5 MR. THOMAS: Oh, yes, decidedly, but
6 I am not sure that that in itself is anything that
7 monetary policy can do much about. It is not the
8 function of the banking system to provide long term
9 capital. All the banking system is supposed to do
10 is provide the general short term capital to the
11 extent to which the public wants to hold cash balances.
12 If the public does not want to hold cash balances
13 then the public provides the capital in what other
14 form it chooses to put its balances in. I do not
15 think we should use monetary policy as a way of
16 stimulating capital investment. You have to use it
17 as a means of being sure that there is enough working
18 cash available. The public is going to refrain from
19 investing because it wants to hold cash balances. You
20 have to do it so that also you do not try to stimulate
21 or generally create more cash balances than the public
22 ordinarily wants to hold as a way of stimulating the
23 economy through the creation of short term credit.

24 Of course, that can hit back at you. It
25 is the supply of savings that has got to determine the
26 availability of long term capital, and the public makes
27 these decisions as to whether it is going to save or
28 not.

29 COMMISSIONER LEMAN: We were talking, Mr.
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In asking ourselves how effective in point of time it
is should we distinguish between the field of capital
goods and the field of consumption?

Mr. Chairman, my answer is, no.

I am not sure that that in itself is anything that
monetary policy can do much about. It is not the
function of the banking system to provide long term
capital. All the banking system is supposed to do
is provide the general short term capital to the
extent to which the public wants to hold cash balances.
If the public does not want to hold cash balances
then the public provides the capital in what other
form it chooses to put its balances in. I do not

think we should use monetary policy as a way of
stimulating capital investment. You have to use it
as a means of being sure that there is enough working
cash available. The public is going to refrain from
investing because it wants to hold cash balances. You
have to do it so that also you do not try to stimulate
or generally create more cash balances than the public
ordinarily wants to hold as a way of stimulating the
economy through the creation of short term credit.

Of course, that can hit back at you. It
is the supply of savings that has got to determine the
availability of long term capital, and the public makes
these decisions as to whether it is going to save or

not.



1 Thomas, about the judgments that have to be made about
2 the rate of growth and the level of spending in the
3 economy. Let us think for a moment of a time when
4 the authorities feel there should be some restraining
5 action. Will the authorities ask themselves if this
6 restraining action should have more effect in the
7 capital sector or in the consumption sector, or should
8 they not pay any attention to that and just look at
9 the total volume of spending?

10 MR. THOMAS: Well, they have to look at
11 both, yes, but if there is evidence that you are
12 stimulating or creating capital investment at a rate
13 which may not be sustainable, then I think you have
14 to be careful about it. That is about how far you
15 go in that direction. There are times, of course,
16 when consumption may be being stimulated, but you
17 certainly cannot ignore altogether the uses that are
18 being made of credit at any time. There are times
19 when you have to look at particular uses being made
20 of money at an unsound rate. Again you get back to
21 the 1920's. It was perfectly clear; certainly is
22 clear by hindsight and should have been clear at
23 the time, that we had -- I studied the problem carefully
24 once and there was \$20 billion of credit borrowing
25 on the stock market in '29. That was one-third of
26 the total of all national credit, and one-third of
27 our national income. It was based entirely on a
28 speculative price rise. That is the sort of a
29 situation that certainly cannot last, and it had to
30 be dealt with.



Thomas, about the judgments that have to be made about the rate of growth and the level of spending in the economy. Let us think for a moment of a time when the authorities feel there should be some restraining action. Will the authorities ask themselves if this restraining action should have more effect in the capital sector or in the consumption sector, or should they not pay any attention to that and just look at the total volume of spending?

MR. THOMAS: Well, they have to look at

both, yes, but if there is evidence that you are stimulating or creating capital investment at a rate which may not be sustainable, then I think you have to be careful about it. That is about how far you go in that direction. There are times, of course,

when consumption may be being stimulated, but you certainly cannot ignore altogether the uses that are being made of credit at any time. There are times when you have to look at particular uses being made of money at an unusual rate. Again you get back to the 1920's. It was perfectly clear; certainly it

clear by hindsight and should have been clear at the time, that we had -- I studied the problem carefully once and there was \$20 billion of credit borrowing on the stock market in '29. That was one-third of the total of all national credit, and one-third of our national income. It was based entirely on a speculative price rise. That is the sort of a situation that certainly cannot last, and it had to be dealt with.



1 That is one example where a selective
2 credit control device was clearly necessary, because
3 we had a credit structure which was built up on too
4 much stock market credit and very much liquid sums
5 held by banks and others were going into the New York
6 money market and loaned for speculative purposes.
7 The imposing of margin requirements would have the
8 result of holding down the demand for that type of
9 credit. Also from experience it has kept the market
10 from doing that for 25 or 30 years, and the development
11 of the treasury bill provided another form of liquid
12 instrument so that the liquid funds in banks and other
13 places did not have to go into that type of call money.
14 That was a case where we needed a selective device.
15 The time might come when you have development in
16 consumer credit, and this might need a selective device,
17 but I hope not because it is a very difficult thing
18 to deal with, certainly in our economy. I think
19 experience has shown that so far it has adjusted
20 itself without being too unsound.

21 In general I would put more emphasis
22 on the aggregate credit volume and the net result
23 of the money supply rather than on the specific device
24 of credit. The more that goes in to one thing, the
25 less there is for another. The real danger comes when
26 you try to pump it into one particular purpose, or
27 try to keep money going into some, what you consider,
28 justifiable use without restraining the unjustifiable
29 use. You can then run into trouble.
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1 COMMISSIONER BROWN: I wonder if I might
2 ask a question along the same lines, and that is,
3 how fast can the effectiveness of some monetary policy
4 change the measure? For example, if you had
5 made a decision based on the available statistics
6 that you use as a measure of intention, and a change
7 in policy is decided upon, what sort of time lag is
8 there? What are the leads that give you some
9 indication that the policy has been as effective
10 as you wished it to be so that you can swing it again?

11 MR. THOMAS: You can measure it very quickly
12 by the effects on the money market. We can measure
13 it fairly quickly in the effects on the total volume
14 of bank credit and on the money supply. What happens
15 after the money supply has been restricted or extended
16 depends on a whole lot of decisions, and all we can
17 say is that it varies under different circumstances.
18 We know that the rate of turnover of money varies
19 quite considerably. The rate of turnover is not
20 in itself a force, it is the net result of all the
21 other forces other than volume of money and volume
22 of transaction. That requires a very careful analysis
23 of the whole economic structure. That is what is
24 going on all the time. I do not think there is any
25 very precise measure of the effectiveness of what you
26 might call monetary policy that is independent of all
27 the other forces that are operating in the economy
28 at the time. All you can say is that you try to
29 conjecture what would have happened if you had followed
30 a different policy.

THOMAS BROWN: I wonder if I might

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a different policy.



1 COMMISSIONER BROWN: There is somewhat a
2 similar question in respect of changes in interest
3 rates. That has an effect both on the supply and
4 demand.

5 MR. THOMAS: That is right.

6 COMMISSIONER BROWN: To what extent is
7 there also a perverse reaction on the supply in
8 reducing the liquidity of a certain instrument? That
9 is the point I think you were making about the
10 availability of money, rather than the rate of interest?

11 MR. THOMAS: Well, of course, any change
12 in the price, or any tendency for the price to move
13 in one direction or another always has an expectational
14 effect. Sometimes you are getting a rise in interest
15 rates or a decline in bond prices which will not
16 immediately stimulate lending because people buying
17 bonds will wait until they think the price has gone
18 down to what they consider to be as far as they are
19 going to go.

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going to go.



1 The participants in the market will do that, and that
2 is one of the arguments against a deliberate policy
3 to peg an interest rate or the price of bonds
4 because it may actually keep people from buying who
5 otherwise would be in there buying, because they
6 think this is an artificial price and they will not
7 buy at this level.

8 At the same time it might stimulate borrowing
9 because people say this is an artificially low interest
10 rate and we had better get the money while we can get
11 it, so it does have reverse effects, and any process
12 can change in a market situation and while the change
13 is going on it tends to have that effect. That is
14 just one of the market characteristics, and it is
15 judgment of the market-place as to when is an appropriate
16 to buy, to borrow or to lend.

17 COMMISSIONER GIBSON: I have a couple of
18 more questions to do with this area and to do with
19 the timing, really. How about the problem of knowing
20 enough in order to take action quickly. Is this
21 the constant problem of being a little late, not
22 having enough information to do what should have
23 been done in time?

24 MR. THOMAS: Yes, there is always that
25 problem. Sometimes you get leads from the market
26 itself. That is what our people in New York call
27 "operating on the feel of the market". You can
28 get action on the market that you cannot explain on
29 the basis of statistics that are available and that
30 would indicate some new factors are coming in; the year-



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1 round treasury bills or this, that, or the other.

2 COMMISSIONER GIBSON: It is the feel and
3 flare, is it?

4 MR. THOMAS: Yes, so again it is a matter
5 of judgment; if you think it is reasonable to accept
6 a certain response under the circumstances and you
7 begin to get that indication in the market, then you
8 might be willing to act a little more promptly.

9 COMMISSIONER GIBSON: Perhaps ahead of
10 the others?

11 MR. THOMAS: Yes, perhaps ahead of the
12 others.

13 COMMISSIONER GIBSON: Does this happen
14 fairly frequently?

15 MR. THOMAS: It does happen. Sometimes
16 it is a mistake; sometimes the development that you
17 think will take place does not come about.

18 COMMISSIONER LEMAN: The flare gets ahead
19 of their feel?

20 MR. THOMAS: There is always a tendency
21 for anybody operating in a market to be very much
22 influenced by a temporary factor. That is one reason
23 why we sit in Washington in our marble palace -- or
24 mausoleum, some people call it -- and try to get a
25 broad view and hold back those in New York who are
26 very much influenced by the market psychology.

27 COMMISSIONER GIBSON: Is there not some
28 difficulty about convincing this group that make the
29 decisions about the growing policy -- as you described
30 earlier -- to do something just on the feel of the



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1 situation and have not got the statistics and factual
2 data to back it up?

3 MR. THOMAS: Yes, there is always that
4 difficulty and frequently there is some lag, but I do
5 not know that these lags become too important because
6 there is so much day to day adjustment that the
7 actual operations which can be said to affect policy
8 are very small.

9 I can use this illustration; suppose you
10 have a rate of growth of 3 per cent a year in money
11 supply. That involves an addition to the volume
12 of bank reserves of something like \$500 million or
13 \$600 million in a year, and the volume of currency
14 of about the same amount, it means about a billion
15 dollars of reserve bank credit, and that is only
16 \$20 million a week, and to take care of normal growth
17 in operations which run as much as a billion dollars
18 in either direction in any one week, \$20 million is
19 a very small fraction.

20 What we have actually done is we have given
21 the Committee our projections of what the reserve needs
22 may be and we frequently put in a factor for growth
23 or a factor for the side growth.

24 Now, I think just about a year ago, looking
25 at the situation, we were in a period of recovery and
26 wanted to know how much money we would be putting into
27 the economy and I figured roughly, well, 5 per cent
28 for the period of recovery, 5 per cent annual rate of
29 growth, and we put that in as a projection for the
30 amount of reserves that might be supplied in addition



situation and have not got the statistics and factual data to back it up?

MR. THOMAS: Yes, there is always that difficulty and frequently there is some lag, but I do not know that these lags become too important because there is so much day to day adjustment that the actual operations which can be said to affect policy are very small.

I can use this illustration; suppose you have a rate of growth of 3 per cent a year in money supply. That involves an addition to the volume of bank reserves of something like \$200 million or \$600 million in a year, and the volume of currency of about the same amount, it means about a billion dollars of reserve bank credit, and that is only \$20 million a week, and to take care of normal growth in operations which run as much as a billion dollars in either direction in any one week, \$20 million is a very small fraction.

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1 to the weekly, seasonal and other temporary variations,
2 and projected that on through, and that level has
3 just about been sustained.

4 Now, there is an interesting sidelight
5 on that in the sense of how you cannot be sure of
6 what the effect will be. The result of the 5 per
7 cent increase in reserves, the annual rate of increase
8 in reserves, was only about a one per cent increase in
9 demand deposits and a 16 per cent increase in time
10 deposits. The reserve was there, the money was
11 created, the bank credit expanded at the rate of about
12 8 per cent, but the public made its own decision as
13 to how it was going to hold that money. They did
14 not put it in what we call "money supply", they put
15 it into time deposits at banks, and it was one of
16 the difficult questions of judgment and is still a
17 difficult question of judgment as to how much weight
18 to give when the public is holding time deposits and
19 not demand deposits. How do you measure the money
20 supply? You measure it by the total time and demand
21 deposits, which will have a tremendous expansion of
22 7 or 8 per cent and the 5 per cent reserve is less
23 than the seven or eight because of the lower requirements
24 against time and deposits. If you measure it by
25 just what we call the active money supply, it looks
26 as though we have had an inadequate growth. That
27 is still one of the debated questions.

28 Now, we have a new situation that is added;
29 that the treasury has been increasing the supply of
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1 treasury bills outstanding at the rate of 100 million
2 or 200 million a week, and although banking credit
3 is expanding some it has not expanded much because
4 the public is buying these treasury bills and it has
5 kept the bill rate up -- it is close to 3 per cent
6 now -- and corporations instead of holding cash in
7 the banks or on time deposits or something else, they
8 are buying treasury bills or somebody else is buying
9 treasury bills, but that is liquidity and it is
10 available for use and it comes back into use and then
11 when somebody tries to convert it back from bills
12 into cash, then a decision will have to be made as
13 to what the monetary policy will be. So far most
14 of it has gone to expand the treasury balance, so
15 it has not come back into the money supply, but once
16 the treasury spends it it will be a question of what
17 the net effect would be.

18 These are all matters that require judgment
19 in any given situation. There is not any pat answer
20 to it and it has to be viewed in the light of the
21 economic climate at the time.

22 COMMISSIONER GIBSON: There is one more
23 question to do with the effectiveness of policy, and
24 that is when you want to add cash to the system and
25 the business is well below capacity, are you prohibited
26 at times from adding as much as you would like to do
27 and it may be hard to get the liquidity out of the system
28 later on in the cycle when business is good.

29 MR. THOMAS: There is always that reason,
30 but in 1954 and 1958 the system was not inhibited by that



treasury bills outstanding at the rate of 100 million or 200 million a week, and although banking credit is expanding some it has not expanded much because the public is buying these treasury bills and it has kept the bill rate up -- it is close to 3 per cent now -- and corporations instead of holding cash in the banks or on time deposits or something else, they are buying treasury bills or somebody else is buying treasury bills, but that is liquidity and it is available for use and it comes back into use and then when somebody tries to convert it back from bills into cash, then a deflation will have to be made as to what the monetary policy will be. So far most of it has gone to expand the treasury balance, so it has not come back into the money supply, but once the treasury spends it it will be a question of what the net effect would be.

These are all matters that require judgment in any given situation. There is not any pat answer to it and it has to be viewed in the light of the economic climate at the time.

COMMISSIONER GIBSON: There is one more question to do with the effectiveness of policy, and that is when you want to add cash to the system and the business is well below capacity, are you prohibited at times from adding as much as you would like to do and it may be hard to get the liquidity out of the system later on in the cycle when business is good.

MR. THOMAS: There is always that reason, but in 1954 and 1958 the system was not inhibited by the



1 fear, and in 1958 it came back and hit us pretty hard
2 when a change occurred and pumped in a lot of money
3 in that period. It got just to the point where banks
4 and others finally decided that maybe interest rates
5 were going to go lower, or at least they had a lot
6 of money available and were going to put it into some-
7 thing that would give them a better yield than treasury
8 bills, which were down three-quarters, or something,
9 and just about the time they started shifting the
10 market changed and the treasury put out an issue of
11 long term securities and the whole psychology changed,
12 and you had a little experience here about that time,
13 you put through a big refunding operation just at the
14 time when the industries changed and had the Lebanese
15 and Syrian flare-up, and there was a very sharp change
16 in the economy and in the whole level of interest rates
17 and prices. Therefore, you look back in hindsight
18 and maybe you can say that a lot of that money that
19 was pumped in was not necessary.

20 Now, in 1960 and 1961 we refrained from
21 pumping in a great deal; refrained because of the
22 balance of payment situation. There is no evidence
23 that failure of treasury bill rates to go down very
24 low and to build up a whole volume of funds had any
25 serious effect on holding back the economy. The
26 recovery has given consideration to other factors
27 and it has been not much unlike that which took place
28 in the other period when you did not have this wide
29 fluctuation in interest rates and upsets to the bond
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1 THE CHAIRMAN: I think that people are having
2 a little difficulty in hearing you.

3 MR. THOMAS: I am sorry.

4 COMMISSIONER GIBSON: This is one of the
5 reasons that you have this factor in mind of not putting
6 too much money in to stimulate recovery for fear it
7 may provide too much later. This boils down, from
8 what you were saying, to part concern about too rapid
9 changes in interest rates to correct the situation,
10 is that correct?

11 MR. THOMAS: Yes, too rapid change in
12 interest rates or, putting it the other way, too
13 rapid change in bond prices.

14 COMMISSIONER GIBSON: Yes.

15 MR. THOMAS: Rapid change in short term
16 interest rates does not do any great harm; the economy
17 can adjust to that pretty quickly, the money markets
18 and security markets can adjust to the short term
19 interest rates because that has very little effect
20 on capital valuations of the securities involved, but
21 changes in long term rates which are likely to accompany
22 it can be more upsetting, but whether it should be
23 avoided I think is a question for debate.

24 In a way one could argue in a period of slack
25 that it is all right to encourage the public to buy
26 long term securities, and then when you get into a
27 period of boom, the fact that they hold these and they
28 are at a lower price is in itself a restraining influence.
29 This is one of your automatic stabilizers and that
30 might be desirable, and is to some extent.



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1 COMMISSIONER GIBSON: But you do feel that
2 you can have too much change in long term interest rates?

3 MR. THOMAS: Yes, if your cycle is a short
4 term cycle, you get into a long sustained depression
5 period and long term -- it is desirable that long term
6 rates come down.

7 COMMISSIONER GIBSON: But what is your
8 objection to big changes in interest rates, that it
9 upsets the investment decisions too radically and you
10 get the first reactions if you get a lot of large
11 changes in a fairly short time?

12 MR. THOMAS: Yes, it is upsetting to the
13 market, and if the adjustments occur in the early
14 stages of the recovery it might actually retard the
15 recovery, and they might occur in the early stages
16 because people think the activity is going to increase
17 and there will be more pressures on the markets and
18 they think that bond prices will change and they will
19 anticipate that change, but I certainly would not
20 be dogmatic about it and I am not sure that I would
21 want to advance it as my view, and I am not sure of
22 the view that we should have more moderate fluctuations
23 in interest rates; maybe we should not. I think you
24 can argue either way.

25 COMMISSIONER GIBSON: We have had a lot
26 of witnesses that felt that fluctuations in interest
27 rates should be much more moderate.

28 MR. THOMAS: The market people always feel
29 that way. You can get an economist who might feel the
30



COMMISSIONER GIBSON: But you do feel that

you can have too much change in long term interest rates

MR. THOMAS: Yes, if your cycle is a short

term cycle, you get into a long sustained depression
period and long term -- it is desirable that long term

interest rates

COMMISSIONER GIBSON: But what is your

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1 other way; people who want to really follow positive
2 programs of stimulating the economy in a recession and
3 restraining it in booms and they might argue for wider
4 fluctuations in interest rates and availability of
5 funds, which would have the result of causing wider
6 fluctuations in interest rates. Generally these people
7 would like to have interest rates go down, but never
8 like to see them go up.

9 COMMISSIONER MACKINTOSH: If I could inject
10 a question, is it not possible with fairly violent
11 fluctuations in long term debt securities that you
12 destroy the place of those securities in various
13 investment portfolios and that you in many cases
14 lock them in?

15 MR. THOMAS: Yes.
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Transcript

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MR. MACKINTOSH: That



1 COMMISSIONER MACKINTOSH: And destroy their
2 effective marketability and that you may get a long
3 run shift away from them, even government securities.
4 The ultimate security is there, but the availability
5 of them is quite different from what people contemplated
6 when they put them in those portfolios?

7 MR. THOMAS: Well, I don't know that that
8 is avoidable if the price system is going to function
9 and reflect the changes in supply and demand forces,
10 but it is an argument against encouraging too wide
11 movements, probably, or unnecessarily wide movements,
12 but when we get into recession and the demands for
13 credit are slack, banks are going to gradually look
14 for the most profitable things they can find, or
15 other investors are going to, and that will tend to
16 push down rates, and to try to keep them from going
17 down I am not sure is sound policy under the
18 circumstances. As I said, to the extent to which they
19 can be locked in in a boom, maybe it is a good thing.
20 We tried in 1947-1948 to prevent bond prices from
21 going down, and insurance companies and other investors
22 were trying to move out of government bonds into other
23 securities, and the Federal Reserve bought \$10 billion
24 worth of bonds in that endeavour, which just helped
25 to create more money and to bring on an inflationary
26 situation. It might have been better to let them
27 be locked in.

28 COMMISSIONER MACKINTOSH: The market people
29 always seem to indicate, as long as it is gradual
30 enough and they have advance notice, that it is



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1 acceptable?

2 MR. THOMAS: People who make their living
3 in the market have a tendency to never like to have
4 markets work the way they are supposed to work in
5 order to perform their function.

6 COMMISSIONER LEMAN: Mr. Thomas, in one
7 of the objectives, if I may come back to it for a second,
8 is the reasonable stability in the purchasing power
9 of the currency -- avoiding inflation and deflation.
10 Ultimately, what the people want are goods and services,
11 and those are the prices you are referring to there,
12 but if as a result of habits in the economy people
13 hold long-term securities, to them they may have held
14 them in order to use them later for the purchase of
15 those services; right?

16 MR. THOMAS: Is that your question? Aren't
17 you going on with some other conclusion or question?

18 COMMISSIONER LEMAN: Yes, I would like to
19 go on from there. I am just wondering ---

20 MR. THOMAS: I am not going to agree that
21 you are right at this stage. I just want to see where
22 you are leading.

23 COMMISSIONER LEMAN: If you believe it is
24 not right, I wish you would tell me right now.

25 MR. THOMAS: Well, I want to see where you
26 are leading.

27 COMMISSIONER LEMAN: I am wondering if that
28 is basically the reason why people argue against quick
29 or violent changes in prices of bonds?

30 MR. THOMAS: Of securities?



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1 COMMISSIONER LEMAN: Or securities.

2 MR. THOMAS: It seems to me this gets down
3 to the fundamentals of the whole process of saving
4 and investment and liquidity. The economy has to
5 operate. If it is going to grow you have to have
6 investments and we have to have savings that correspond
7 to it, and somebody has to hold those savings and
8 those investments, but if all savings are always
9 liquid, then they own money, and you can't be assured
10 that all savings are going to be always so liquid
11 otherwise you are going to have a very unstable economy.
12 The whole function of savings is that a certain amount
13 has to be held, and anyone who wants to convert his
14 savings into money has to run the risk of the market
15 at the time and find somebody else who will take over
16 those assets and use his savings for that purpose.
17 But if you set up a public policy of guaranteeing
18 the prices of all assets, then you are just running
19 a printing press. Every time anybody wants to shift
20 out of one asset into another, and you are going to
21 guarantee he can do that at a price he thinks is
22 reasonable, then you are not following a policy that
23 will provide a reasonable stability in the economy.
24 It is going to provide very wide fluctuations.
25 We know it from experience; we have tried it.

26 The question is, how much liquidity should
27 the economy have at any given time. A certain amount
28 of savings just cannot be liquid -- not at a fixed
29 price.

30 COMMISSIONER MACKINTOSH: I would like to

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COMMISSIONER MACKINTOSH: I would like to



1 explore a few different questions that have been
2 touched on already, Mr. Thomas. You emphasize
3 repeatedly through your brief that the primary concern
4 of the Federal Reserve Board is in the amount of
5 bank cash, and that that is the thing which you can
6 influence most firmly and most precisely, and subject
7 to the qualifications you have made to place rates
8 of interest in a sort of secondary position exercising
9 to a degree a function of communicating the availability
10 of cash to the various parts of the capital market.

11 MR. THOMAS: Allocating.

12 COMMISSIONER MACKINTOSH: Allocating. I
13 noticed in the evidence before the Radcliffe Committee
14 there seemed to be a sharp division, which is not
15 unusual among economists, some of them asserting with
16 great dogmatism that if you controlled liquidity
17 you need not pay any attention to rates, and others
18 were equally dogmatic that if you can set the structure
19 of rates you don't need to pay any attention to
20 liquidity. I take it your view is that these two things
21 are tied up and that the structure of rates will
22 flow from all the factors in the market plus the degree
23 of liquidity.

24 MR. THOMAS: Yes, that would be my view.
25 I do not think you can separate liquidity and interest
26 rates. They are all inter-related. If the liquidity
27 is increased it will have an effect on interest rates.
28 To try to fix interest rates without regard to
29 liquidity would also be futile except to the extent
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1 Bank of England can change its bank rate, and certain
2 other rates automatically change accordingly. But
3 I would say that if the Bank of England changed its
4 bank rate to a level which was unrealistic in view
5 of the state of the economy and the demands for credit,
6 that the rate would be ineffective and there would
7 be leakages through one device or another that would
8 mean it would not work. Some of those leakages
9 would be through the international markets.

10 COMMISSIONER MACKINTOSH: And more immediately
11 if it fixes a certain rate it is only made effective
12 through open market operations ...

13 MR. THOMAS: Which affects liquidity.

14 COMMISSIONER MACKINTOSH: ... which may in
15 turn break down because of the international ---

16 MR. THOMAS: Which affects liquidity.

17 COMMISSIONER MACKINTOSH: Yes. There is
18 quite a volume of literature and discussion on policies
19 variously described as bills only and bills preferably,
20 and so forth. I take that this is still the policy
21 of the Board, subject to somewhat uncertain modifications
22 from time to time; is that reasonably correct?

23 MR. THOMAS: I will speak personally: You
24 see, I am a bills only man, pure and simple. I think
25 that the policy of bills only or bills preferably or
26 bills usually is essentially so unavoidable for very
27 practical as well as for theoretical reasons with
28 possible variations, which we can discuss, one reason
29 being that, as I have pointed out, the volume of
30 Federal Reserve operations in the market is very large.



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1 We buy and sell something like \$10 billion worth
2 of securities every year, whereas the net change
3 in the system holdings may be negligible -- may be
4 one billion or two billion at the most depending on
5 how much has to be used to offset gold movements.
6 So that, you have to buy something that you can sell,
7 and quickly. They sometimes buy \$1 billion of
8 securities one week and they sell the same amount the
9 next week to take care of seasonal needs. So, the
10 Federal Reserve prefers bills because the market
11 prefers bills. Bills are more easily sold in the market
12 than other securities. We have a big portfolio, even
13 though on rather short-term securities -- what we call
14 certificates which are issued to mature in less than
15 one year, and notes issued to mature in less than
16 five years, and constantly approaching maturity.
17 However, we are practically never able to sell any
18 of those securities in the market. We can always
19 buy them, but we cannot always sell them. So, most
20 of our operations have to be in bills, and I think
21 there is general agreement on that.

22 COMMISSIONER MACKINTOSH: This is the more
23 nearly perfect market.

24 MR. THOMAS: It is the more nearly perfect
25 market. It is the biggest market; it is the market
26 in which you get the minimum of price changes. You
27 can run off a bill one week, if you have one in your
28 portfolio, and make an adjustment that way. So that
29 in order to operate in the market and supply the
30 reserves that are needed with the minimum price effects,



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1 other than the price effect that is desired at the
2 time, you have to operate on something in which there
3 is a very good market. Therefore, for very practical
4 reasons most of our operations have to be in bills.

5 Now, to the extent to which you can find
6 an occasion when you buy some other securities, it
7 is all right -- our portfolio is \$25 billion and we
8 really, I think, hold only \$3 or 4 billion of bills,
9 actually, and we are able to do all this on that small
10 amount of bills, and it does not make a great deal
11 of difference how the others are held. A lot of
12 these have been acquired over a period of time. As
13 I said, in 1948 we bought \$10 billion worth of long-
14 term bonds and still have a lot of them. Others
15 are approaching maturity or have matured. However,
16 to go more into the broader aspects of it, I think
17 the question again gets back to a question of liquidity:
18 How much liquidity you want in the economy. If we
19 have a situation in which there is inadequate liquidity
20 in the economy, in which we have a public debt that
21 has a lot of long-term securities outstanding, and
22 the treasury is not able to increase the supply of
23 liquid instruments by issuing shorter-term securities
24 to replace those that are maturing, or you don't have
25 enough approaching maturity to provide the liquid
26 instruments that our markets would like to have, there
27 might be a case for the Federal Reserve buying up
28 some of the longer-term securities that the public holds
29 and increasing liquidity, which is the same as if the
30 treasury could, say, have some advance refunding, or



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1 call some issues, and issue some short-term securities
2 in its place. You can do it by either process. It
3 is a question of the change in the structure of the
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1 Because from the standpoint of the economy the debt that
2 is held by the Federal Reserve is not essentially the
3 market supply, it is not debt that has been used to
4 absorb savings or, to get back to another fundamental,
5 the whole purpose of public debt and in issuing long-
6 term securities is to finance the government's deficit
7 by borrowing available savings without creating money,
8 creating additional liquidity and whether the Federal
9 Reserve holds a long-term security or a short-term
10 security does not make any difference as far as
11 that goes because the Federal Reserve is not going to
12 buy securities except for other purposes. It does not
13 make any difference whether they are liquid or not
14 provided it has enough to do its current operations.

15 So you have to view the debt outside the
16 Federal Reserve and outside of the treasury operations
17 from the standpoint of the effect of this debt structure
18 on the economy and savings and the investment and
19 liquidity situation at any particular time. The
20 only occasion for the Federal Reserve to buy long-term
21 securities, then, is in case you want to increase the
22 liquidity at a time when you cannot do it by any
23 other means. We have not been in that situation in
24 our public debt structure. Our public debt structure
25 is over-balanced towards the short-term end rather
26 than towards the long-term end.

27 COMMISSIONER MACKINTOSH: I was just going
28 to ask you do you visualize a different set of circumstances
29 in which public debt has a considerably longer average
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in which public debt has a considerably longer average
maturity than is true in the United States and where



1 the short-term market is less fluid and concentrated
2 than it is in the United States. May not in those
3 circumstances a bills only policy be impractical?

4 MR. THOMAS: Well, I can conceive of a
5 situation where that could happen but generally
6 the aims of most governments since the war have been
7 to get their debt extended rather than to shorten it.
8 Let us take the other side ---

9 COMMISSIONER MACKINTOSH: You say their
10 aims have been to get it extended?

11 MR. THOMAS: Get it lengthened rather than
12 shortened because debt matures awfully fast -- the
13 passage of time itself.

14 COMMISSIONER MACKINTOSH: That is true but
15 they are not always successful in extending it.

16 MR. THOMAS: No, that is what I say. That
17 is one reason why if the Federal Reserve or central
18 bank ever buys long-term securities it is going to
19 be exceedingly difficult for it ever to sell them
20 because the treasury can always sell them and would
21 always be willing to sell long-term securities if
22 the economic situation is such that it is desirable
23 to absorb savings and reduce the liquidity of the
24 economy. The treasury can do that through its debt
25 management and build up and improve its debt structure
26 but for the Federal Reserve to attempt to sell long-term
27 securities at any time would simply make it more
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30 Therefore, I would say that the Federal



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1 Reserve operations in short-term securities are not
2 only practically necessary, they are almost unavoidable.
3 There is seldom any occasion when there is any reason
4 for trying to operate in longer-term securities. The
5 basic thing is that the net effect of Federal Reserve
6 operations is not the small amount of securities it
7 buys and sells and the effect on the market at that
8 time; it is the ultimate effect of the multiple
9 expansion of credit or the multiple contraction, as
10 the case may be, as that money flows into other people's
11 hands.

12 When the banks get the reserves they are
13 the ones who decide how those reserves are to be used,
14 they together with the borrowers, and when the borrowers
15 get the money and spend it the ultimate recipients are
16 going to decide how that money is going to be used
17 and you can get some tremendous repercussions that are
18 completely out of control of the Federal Reserve and
19 they have a great deal more influence on the market
20 structure of rates than simply the initial purchase
21 by the Federal Reserve.

22 The Federal Reserve affects the market
23 structure. It affects it more through its indirect
24 effects. It is the decisions of the ultimate recipients
25 as to how they use the money more than by the initial
26 transaction in itself.

27 COMMISSIONER MACKINTOSH: Does the Board
28 limit its views on the amount of additional or
29 subtracted credit which it feels is desirable in the
30 system or bank cash or does it take a view of the



Reserve operations in short-term securities are not only practically necessary, they are almost unavoidable. There is seldom any occasion when there is any reason for trying to operate in longer-term securities. The basic thing is that the net effect of Federal Reserve operations is not the small amount of securities it buys and sells and the effect on the market at that time; it is the ultimate effect of the multiple expansion of credit or the multiple contraction, as the case may be, as that money flows into other people's

When the banks get the reserves they are the ones who decide how those reserves are to be used, they operate with the borrowers, and when the borrowers get the money and spend it the ultimate recipients are going to decide how that money is going to be used and you can get some tremendous repercussions that are completely out of control of the Federal Reserve and they have a great deal more influence on the market structure of rates than simply the initial purchases by the Federal Reserve.

The Federal Reserve affects the market structure. It affects it more through its indirect effects. It is the decisions of the ultimate recipients as to how they use the money more than by the initial transaction in itself.

COMMISSIONER MCKINNON: Does the Board

shift its views on the amount of additional or subtracted credit which it feels is desirable in the system on bank cash or does it take a view of the



1 desirable structure of interest rates even though it
2 does not attempt to operate on them?

3 MR. THOMAS: I would say that the prevailing
4 view is that there is not much they can do about the
5 structure of interest rates. Take in the last year,
6 there has been an endeavour, as I have said, to maintain
7 the level of short rates and there was a sort of view
8 expressed that they were going to keep short rates
9 from going down but still push down long-term rates.

10 COMMISSIONER MACKINTOSH: This was operation
11 nudge, was it?

12 MR. THOMAS: Well, I think the initial
13 author of the word "nudge" would not have carried it
14 to the point of saying you could hold up short rates
15 and push down long rates at the same time. He would
16 have used it in the sense of being in a situation where
17 long-term rates are tending down anyhow and you can
18 make them go a little faster if you operate in that
19 area. But to try to operate in one area in one
20 direction and in another area in another I do not
21 think he would recommend any such thing and he certainly
22 did not have that in mind. It is not a rational
23 implication of the use of the word "nudge".

24 COMMISSIONER MACKINTOSH: It is not a very
25 precise term?

26 MR. THOMAS: And, of course, what has
27 happened is that we have, as I say, held up short rates.
28 Part of that is due to the fact that the treasury is
29 pushing the low short-term securities. I think that
30 has more to do with it than any Federal Reserve



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1 operations in long-term securities because we have
2 bought very few. It certainly has not put down long-
3 term rates. I am sure long-term rates would have been
4 much lower if short-term rates had gone down. It is
5 unreasonable to expect investors in a period of
6 relatively low interest rates to be willing to invest
7 in long-term securities at $3\frac{1}{2}$ per cent, say, or even
8 4 per cent when they can get treasury bills at 3 per
9 cent or one year securities at $3\frac{1}{2}$ per cent or something.
10 They would rather take a chance of being able to buy
11 those bonds at a higher level later when the recovery
12 comes.

13 The only way you can get longer rates down
14 is to push short rates down so that people would
15 sacrifice liquidity in order to get yield.

16 COMMISSIONER MACKINTOSH: On that point,
17 assuming the Board increases bank cash and considers
18 that an appropriate result of that and an inevitable
19 result probably would be a reduction in all interest
20 rates, but did not interfere with the structure --
21 they left the market to take care of that -- is it
22 possible that you would have to, in order to obtain
23 the desired effect over the whole range, push short-
24 term rates lower than if you operated over the wider
25 band?

26 MR. THOMAS: Well, that is a matter of
27 opinion. I would say no. Yes, I would say that if
28 you operated over the wider band short rates would
29 go down just as much as if you operated entirely
30 in the short-term area.



operations in long-term securities because we have bought very few. It certainly has not put down long-term rates. I am sure long-term rates would have been much lower if short-term rates had gone down. It is unreasonable to expect investors in a period of relatively low interest rates to be willing to invest in long-term securities at $\frac{3}{2}$ per cent, say, or even 4 per cent when they can get treasury bills at 3 per cent or one year securities at $\frac{3}{2}$ per cent or something. They would rather take a chance of being able to buy those bonds at a higher level later when the recovery comes.

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1 From the standpoint of the Federal Reserve
2 loans our operations are not enough of an influence
3 on the whole market to affect the structure very
4 much. It might temporarily. I mean, if you went out
5 and bought -- in order to meet Christmas currency
6 demands you went out and bought long-term bonds of
7 course you would push the bond price down quite low.
8 But you would also bring bonds out at a rapid rate.
9 I know one security dealer when this operation nudge
10 was being talked about who said he had a supply of
11 bonds and he offered them to the Federal Reserve and
12 they bought a little bit. Then he came back and he
13 offered a great deal more and they changed the price
14 on him and he was sore. He was one who was against
15 the operation and he was endeavouring to show what
16 would be the effect of it. I don't know that it
17 was deliberate but he was going to take advantage of
18 it and get rid of some bonds at a good price and he
19 was convinced there were plenty of bonds that would
20 be available if the system really tried to push the
21 price up and the yield down. With the volume that is
22 outstanding in the market you could buy indefinite
23 amounts.

24 Again going back to 1948 we bought \$10 billion
25 worth of long-term bonds and sold \$10 billion worth
26 of bills and the bill rate still stayed low relative
27 to bond yields.

28 COMMISSIONER MACKINTOSH: On one of your
29 earlier illustrations where you spoke of municipal
30 capital expenditures being affected, clearly affected



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of bills and the bill rate still stayed low relative

to bond yields.

COMMISSIONER WASHINGTON: On one of your

earlier illustrations where you spoke of municipal

and other securities which are sold, would it be correct



1 by interest rates ---

2 MR. THOMAS: Maybe you are making it stronger
3 than I intended. I would not use the word "clearly".

4 COMMISSIONER MACKINTOSH: Well, I am sorry
5 to put that word in the mouth of a banker.

6 MR. THOMAS: Thank you.

7 COMMISSIONER MACKINTOSH: At any rate you
8 indicated some influence there. Now, that implied
9 that if you are increasing the amount of bank cash
10 for the purpose of affecting the economy you want
11 that effect to fan out as far as municipal bonds.

12 MR. THOMAS: I am not too sure of that, that
13 you want it to fan out that far unless the public
14 is willing to put its savings into bonds but they have
15 to make the decision. The public has to make the
16 decision when it wants to buy bonds with its savings.

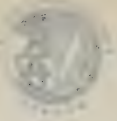
17 COMMISSIONER MACKINTOSH: That would prove
18 that your action was really directed towards biasing
19 the public's decision a bit?

20 MR. THOMAS: Yes, it is to encourage them
21 to venture out. I think that is right. It is quite
22 a different thing from the Federal Reserve going out and
23 buying the bonds directly, though.

24 COMMISSIONER MACKINTOSH: Oh yes, I was
25 not suggesting that but you do depend on this spreading
26 through the whole interest structure, it is the fairly
27 long drawn out effect that you are looking for.

28 MR. THOMAS: Yes.

29 THE CHAIRMAN: I think this may be an
30 appropriate time to adjourn until 2.30. Will that



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COMMISSIONER MACKINTOSH: That would prove that your action was really directed towards placing the public's decision a bit?

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THE CHAIRMAN: I think this may be an



1 give you sufficient time?

2 MR. THOMAS: Yes indeed, I am at your
3 disposal any time.

4 --- Luncheon Adjournment.

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1 --- Upon resuming at 2.30 P.M.

2 THE CHAIRMAN: We shall now resume.

3 COMMISSIONER MACKINTOSH: I just have a
4 question or two, Mr. Thomas with reference to the
5 so-called operation nudge; am I correct that in
6 part this was undertaken in order to maintain a
7 relation between New York rates and European rates
8 which would discourage the outflow of short-term
9 capital?

10 MR. THOMAS: Oh, definitely it was part of
11 the effect that brought about the decision. Whether
12 there might have been a change otherwise, I do not
13 know, but there was sufficient to make the committee
14 willing to venture into other procedures, yes.

15 COMMISSIONER MACKINTOSH: What occurred to
16 me was that the United States has been in the past
17 years much less affected by international markets
18 than many countries. We, on the other hand, have
19 lived in a fairly vulnerable position as far as
20 short-term movements and capital. Does this mean
21 that we in this country for this reason have to take
22 a different view than operations restricted to the
23 short-term market?

24 MR. THOMAS: I should not think so.

25 COMMISSIONER MACKINTOSH: Well, is there a
26 peculiar set of circumstances in the United States?

27 MR. THOMAS: Well, I would say that actually
28 in the United States the situation has not really
29 changed very much. They have conducted very few
30 operations other than in the short-term market.

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1 They have not found it necessary or possible even.
2 All or most of the reserves that have been supplied
3 have been purchasing stocks in the short term area,
4 but there were some in the Spring a year ago; a few
5 purchases. The treasury purchased a little bit.
6 At the same time the treasury was engaged in the
7 advance refunding operations and had a lot more in
8 the long term area. They purchased some long term
9 securities. That may have given a little help to
10 the market. The anticipation may have given some
11 help to the market, but the policy was never carried
12 far enough to have any very important effect on the
13 long term rates.

14 As I say, the policy has been to prevent
15 short term rates from rising. The Federal Reserve
16 formally followed a bill's only policy. It has
17 recently been following a bill rate only policy. The
18 chief objective was to keep the short term bill rate
19 from getting down below some point at which it would
20 encourage the outflow of funds. At the same time
21 the policy has been to endeavour to supply reserves
22 to help stimulate the domestic economy which is in
23 a state of slack. So, what has happened is that
24 the system has in fact bought all these securities
25 that the market wanted to sell in order to keep reserves
26 that the market wanted to use, but the system has not
27 gone out and bought aggressively to the extent of pushing
28 the bill rate down. When the bill rate started going
29 down they held back. The result has been that the
30 banks have obtained all the reserves the banks themselves



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1 wanted, or the market wanted, without the system actually
2 forcing reserves on them, which has had the result,
3 as I summarized this morning, of giving quite a sub-
4 stantial expansion in bank credit, about \$16 billion
5 last year, and going at about the same rate this year,
6 which is about 7 per cent. Most of it has taken
7 the form of time deposits rather than demand deposits.
8 I think that is pretty much the policy that is still
9 being followed.

10 COMMISSIONER MACKINTOSH: Have related
11 operations included operations on the forward exchange
12 market at all?

13 MR. THOMAS: There have been some operations
14 on the forward exchange market, mostly by the treasury.
15 I think there is some by the Federal Reserve, but the
16 system adopted the policy of operating in the forward
17 exchange market at about the time I retired, and this
18 is very secret, what they do there, and I am not in-
19 formed as to what actually is being done.

20 COMMISSIONER MACKINTOSH: That is all I have,
21 Mr. Chairman. Perhaps some of the others have questions
22 in this area.

23 COMMISSIONER LEMAN: Mr. Thomas, I should
24 just like to refer for one second to paragraph 123.
25 This follows on from what Dr. Mackintosh was asking
26 you about, and what we have been talking about. I
27 think it is a quotation, actually. It reads:

28 "International movements of funds that
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30



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COMMISSIONER LEVY: Mr. Thomas, I should

just like to refer for one second to paragraph 123. This follows on from what Dr. Mackintosh was saying. You about, and what we have been talking about. I think it is a quotation, actually. It reads: "International movements of funds have

can be attributed to --"



1 MR. THOMAS: No, that is not a quotation.

2 COMMISSIONER LEMAN: No, that is not a
3 quotation, it is your own text.

4 MR. THOMAS: I will assume the responsibility
5 for it.

6 COMMISSIONER LEMAN: It reads:

7 "International movements of funds
8 that can be attributed to interest
9 rate considerations may call for policies
10 aimed at influencing interest rates,
11 especially if they can be effected
12 without long-run damage to the domestic
13 economy."

14 When I read this I thought that the conclusion to be
15 derived from it is that you would not be averse to trying
16 to influence the structure of interest rates for that
17 purpose and you apparently visualize conditions under
18 which this could be done without long-run damage to
19 the economic area. Can you tell me what are the type
20 of conditions which you feel would permit such an
21 operation?

22 MR. THOMAS: I think this is maybe what
23 I might call the official explanation of the policy
24 that was undertaken, but actually very little has
25 been done to influence the structure of rates as such
26 except to prevent the short rate from going down. Very
27 little has been done to actually push down the long rate,
28 although a little bit was attempted there which probably
29 may have had some effect in stimulating the capital
30 markets in the Spring of last year when there was a



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although a little bit was attempted there which probably

may have had some effect in stimulating the capital

markets in the Spring of last year when there was a



1 very large volume of securities issued. If it had
2 been pushed far enough to actually try to get the long
3 rate down while keeping the short rate up, it might
4 have done some damage to the economy.

5 What this refers to more is that an attempt
6 was made to keep the short rate from going down but
7 still make reserves available under the conditions
8 that were prevailing at the time, but not to push
9 reserves out. It was the policy that might have
10 been followed if it had not been for the international
11 situation. If it had been just the international
12 situation alone and we had been in a booming economy
13 we would have let the rates go up much faster than this,
14 faster than they actually did go up.

15 COMMISSIONER LEMAN: But if you had been in
16 a booming economy you probably would not have had that
17 international payment problem, would you?

18 MR. THOMAS: That is a question. I do not
19 know. I am not sure, but we could have had.

20 COMMISSIONER LEMAN: Well, I am really
21 wondering what is the long range damage to the economy;
22 the type of damage you visualize?

23 MR. THOMAS: Well, to follow a tight policy
24 under the circumstances might have, or would have had
25 a long run damage to the economy. If you had really
26 pushed rates up far enough well, this would have stopped
27 the outflow of funds and might have damaged the domestic
28 economy.

29 COMMISSIONER LEMAN: Oh, yes, I understand
30 that, but I was thinking more in the following terms.

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1 If the Federal Reserve decided at one point to influence
2 the structure of interest rate by changing the spread
3 between the longs and shorts; that type of operation
4 is what I had in mind.

5 MR. THOMAS: Well, what this phrase refers
6 to and what I said was, it was an attempt to keep up
7 the level of rates as high as possible without being
8 too restrictive on the domestic economy at the time.
9 Whether they could ever have followed a policy of
10 changing the structure of rates contrary to the market
11 forces, I do not know. It was not carried that far.
12 What the effect would have been, nobody knows. I
13 have an idea about it. My own view is that it could
14 not have been successful and we might have had to buy
15 a whole lot of long term bonds and still not have been
16 successful.

17 COMMISSIONER GIBSON: Mr. Thomas, I was
18 interested in the way you described the bills preferably
19 or bills only policy largely in terms of practical
20 considerations on the monetary policy. I have heard
21 it described in more emotional terms by people who are
22 concerned about the central bank and expressed the
23 view about the interest rate curve, and feel very
24 strongly that it ought to stay in the short end of
25 the market, but argue that if the central bank inter-
26 venes in those areas of the market this creates a
27 state of uncertainty which is not beneficial to a
28 healthy market. Would you care to say a word
29 about this?

30 MR. THOMAS: I think that is one of the

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too restrictive on the domestic economy at the time.

Whether they could ever have followed a policy of
changing the structure of rates contrary to the market
forces, I do not know. It was not carried that far.

What the effect would have been, nobody knows. I

have an idea about it. My own view is that it could
not have been successful and we might have had to buy
a whole lot of long term bonds and still not have been
successful.

COMMISSIONER GIBSON: Mr. Thomas, I was

interested in the way you described the bill's preference

or bill's only policy largely in terms of practical

considerations on the monetary policy. I have heard

it described in more emotional terms by people who are

concerned about the central bank and expressed the

view about the interest rate curve, and feel very

strongly that it ought to stay in the short end of

the market, but argue that if the central bank inter-

venes in those areas of the market this creates a

state of uncertainty which is not beneficial to a

healthy market. Would you care to say a word

I think that is one of the



1 factors, but that is a more subtle one. I prefer to
2 put it on practical grounds because it is better under-
3 stood. This becomes more theoretical, but I certainly
4 think it is true that if the central bank tries
5 to intervene and determines a level of rates which
6 have not been determined by the prevailing market
7 forces it can get into quite serious difficulties
8 before it is over. We have the illustration of the
9 1948 situation; the illustration I gave of the dealer who
10 was standing there ready to sell us as many bonds as
11 we would have, and I think there were lots of others
12 who would have come in if they felt that the system
13 was really trying to maintain what was an artificial
14 level of rates on long term securities.

15 COMMISSIONER GIBSON: So that on basic
16 philosophical grounds as well as practical grounds you
17 favour this policy?

18 MR. THOMAS: I favour the policy of limiting
19 operations to short term securities.

20 COMMISSIONER GIBSON: Yes.

21 COMMISSIONER BROWN: In that connection it
22 has been suggested to us, Mr. Thomas, that when the
23 central bank does get into this wide spectrum of
24 operations it has a tendency to discourage dealers
25 who would normally carry a large inventory from
26 carrying a large inventory, and tend to make the market
27 thinner. Would you like to comment on that?

28 MR. THOMAS: I think that would be the
29 tendency. We have no statistics from dealers. We
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COMMISSIONER GIBSON: So what on basis

philosophical grounds as well as practical grounds you

favour this policy?

MR. THOMAS: I favour the policy of limiting

central bank to the issue of currency

and the issue of bonds

COMMISSIONER BROWN: In that connection if

has been suggested to us, Mr. Thomas, that when the

central bank goes out into this wide spectrum of

operations it has a tendency to discourage dealers

who would normally carry a large inventory from

carrying a large inventory, and tend to make the market

thinner. Would you like to comment on that?

MR. THOMAS: I think that would be the

tendency. We have no statistics from dealers. We



1 did not put them on a comparable basis for a very long
2 period before these operations began, only September
3 to about February. We have had it varied since, in
4 February a year ago.

5 There is little indication that the dealers'
6 positions in those long term securities are more than
7 they were before. It is awfully hard to generalize
8 on the basis of such a limited period because there
9 are all these other factors which determine dealers'
10 positions. We have found that when the treasury
11 puts out a long term issue the dealers have increased
12 their position. In fact, in October last year they
13 built up a fairly large condition in some long term
14 issues that the treasury was issuing. Some of them
15 lost money on it. Some of them were inclined to
16 say that the Federal Reserve did not live up to its
17 promises to support the long term market, keeping the
18 rate down or pushing it down, and they went in there
19 and bought these on the grounds that they could not
20 lose. I would not be prepared to be dogmatic, but
21 I think the presumption is that the dealers definitely
22 say that the market is less certain, but a bond market
23 is always uncertain. They have always complained
24 about there being no bond market, and they cannot sell
25 any number of bonds they want at the price they want
26 to get, but that is the nature of the bond market, or
27 any market for long term or fixed value assets. You
28 always have to wait and you have to find a buyer.
29 There are just not that many buyers around, and it has
30 to be a negotiated sale. You always find people com-

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1 plaining about the thinness of the bond market. I
2 suspect that our government bond market is one of
3 the most active markets in the world from the stand-
4 point of transactions. If you take the larger end,
5 the volume of operation that goes on in the government
6 security market, leaving out bills in dollar amounts
7 it is many times greater than the daily operations
8 on the stock exchange. There is a tremendous amount
9 of money that changes hands there every day.

10 COMMISSIONER BROWN: I should like to
11 switch over to a slightly different aspect of this
12 question on debt management. I was wondering if
13 you would review for us in a certain amount of detail
14 the division of responsibility for debt management
15 and how the treasury and the Federal Reserve is co-
16 ordinated.

17 MR. THOMAS: Well, the responsibility for
18 debt management is entirely with the treasury. The
19 Federal Reserve banks act as fiscal agents for the
20 treasury and carry out some or most of the physical
21 operations of collecting money, issuing securities
22 and that sort of thing; receiving subscriptions,
23 and certainly the Federal Reserve bank in New York
24 and at times others as well as the board itself will
25 advise the treasury as to the state of the market
26 and as to the possible issues that they might put out
27 in time issues. The treasury will take into con-
28 sideration the state of the money market and the
29 reserve situation that might develop at the time, but
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1 the decision is a treasury decision, very definitely.
2 Any operations that may take place during a period
3 of treasury financing, being aware of stabilizing the
4 market, are likely to be treasury operations. The
5 Open Market Committee had a working rule that during
6 a period of treasury financing the system would engage
7 in no operations which would have the effect of changing
8 the level of interest rates during that period and,
9 to some extent, the system goes a step further in an
10 endeavour to maintain a fairly even situation in the
11 market during that period. So, if any special factors
12 come up that influence the market during the period
13 when the books are open on the treasury finance --
14 maybe even for a short time afterwards and before --
15 the system endeavours to maintain an even situation
16 in the money market just as it does at Christmas time
17 when we have large currency demands, as well as in
18 respect to other temporary factors that affect the
19 demand for or the supply of money, or need for reserves,
20 and endeavour to smooth this out, if we know that they
21 are temporary, at the same time trying to avoid getting
22 into a situation of actually supporting the treasury
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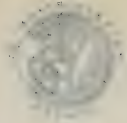


1 Now, for the first few years after the treasury
2 Federal Reserve the Board in early 1951 did follow
3 the policy of actually supporting the treasury
4 issue after it was announced and before the subscriptions
5 came in; at least, any issue that became weak.

6 Now, during that period the treasury was
7 following the policy of pricing their securities rather
8 close to the market; that is, of offering a rate
9 that would give a very small advantage to the
10 subscribers and frequently the result was that a lot
11 of the holders -- if it was an exchange offer -- a
12 lot of the holders of the outstanding issues that
13 they might be offered in exchange, would sell them
14 rather than take the new issue if they could get it
15 at a premium. Frequently in those periods we would
16 offer as many as a billion dollars' worth of the
17 maturing treasury issue before we got through.

18 Now, this policy was abandoned in 1953 and
19 the treasury has priced its issues more attractively --
20 tended to price its issues more attractively -- and
21 all the market is absorbed one way or the other, and
22 when they are faced with a question of not being
23 able to sell at a premium, frequently they don't sell;
24 they turn issues in exchange, so that the system hasn't
25 been in a position of having to take over a lot of
26 securities they don't want and have to sell something
27 else to offset it.

28 In 1958 when we had a break in the market
29 and the Lebanese situation developed at the end of
30 July just at the time the treasury was putting out a



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1 new offering, the system stepped in to purchase some
2 of these securities or support the financing that
3 was announced and the market was changing very fast.
4 The idea at that time was that it would go out and
5 buy some of the longer-term securities that were being
6 offered. Actually, they ended up by buying the rights
7 or the -- or on the "when issued" basis the short-term
8 securities that we have offered. There were two
9 batches being offered at the time of this announcement
10 but very few of the long-term because people had been
11 working on the short-term ones, and again we bought
12 a billion dollars' worth in a few days. I don't
13 think we ever sold those particular issues and probably
14 still have them unless they have matured, but we had
15 to put something else on the market to offset the
16 effect on the reserves and that made the dealers a
17 little sore, too, because those who had taken the
18 new issue found themselves holding the bag and then
19 the Federal Reserve was later trying to dispose of
20 some other securities in order to avoid having a very
21 large volume of excess reserves running around the
22 market in a period of economic recovery when interest
23 rates are sure to go up. So that the view is that
24 to the extent possible the Federal Reserve stays out
25 of the market and it is the obligation of the treasury
26 to price its issues and make offerings that would
27 be attractive on their own rates without Federal
28 Reserve support. I don't know whether that tells enough
29 of the story or not.

30 COMMISSIONER BROWN: I was thinking also in

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1 connection with the timing; does this mean that
2 the treasury consults with the Federal Reserve and
3 they try to pick a time when the Federal Reserve
4 can remain neutral as far as monetary policy is
5 concerned?

6 MR. THOMAS: As to the treasury's financing
7 date, there is not much choice about that, particularly
8 on a refunding operation; they have to be done at
9 the time of the maturity of an issue.

10 On new money financing they have sometimes
11 a little choice, but frequently not very much because
12 the treasury doesn't carry a very big balance
13 ordinarily but to the extent to which there is a
14 choice, yes, the treasury tries to time its financing
15 so that it will not come at a time when the market
16 is under pressures from other things and also to
17 leave something available in case there might be
18 a change in the policy procedure of the system.

19 There might be need for some change, and
20 for that reason the treasury has tried to have its
21 maturities arranged so they will not conflict in the
22 market, because by the time they get through with
23 one operation they have to start thinking about moving
24 towards the next one, but by increasing the amount
25 of bills outstanding, which are sold on a discount
26 basis and doesn't require market support or nursing
27 by arranging its maturities on other issues so that
28 they mature about once a quarter, they have more leeway
29 or more free time than we had at one time a few years
30 ago when there was something maturing almost every



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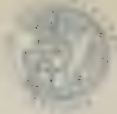
1 month, either maturing or a need for cash.

2 COMMISSIONER BROWN: If you do come into
3 an area of conflict of opinion between debt management
4 and monetary policy, how is it resolved?

5 MR. THOMAS: I don't know that there would
6 be a conflict of opinion between debt management
7 and monetary policy; the treasury makes its own
8 decisions as to what they think that management
9 ought to be and the treasury in making its decisions
10 is likely to be and frequently is influenced by the
11 state of liquidity of the economy as to whether they
12 want to put out more short-term securities or more
13 long-term securities, but mostly because of the structure
14 of the debt, which is already over-balanced on the
15 short side, they will tend to put out the long-term
16 issue whenever they can get away with it and it is
17 the state of the market that determines when these
18 issues are put out.

19 Now, as for monetary policy, the ideal is that
20 monetary policy goes on its way regardless of debt
21 management and if the situation is such that there
22 is a strong demand for credit, relative to the available
23 supply, then the interest rates are permitted to
24 adjust and also the monetary policy and the amount
25 of supplies they think are appropriate for the
26 money supply that is suitable under the circumstances,
27 and the treasury is just one of the borrowers in the
28 market and the treasury has to meet the market terms;
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30 That is what happened in 1959; the treasury



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1 met the market terms and sold these issues outside
2 the banking system, but it is not a function of
3 monetary policy to see that the treasury can sell
4 its securities under any terms it wants to sell them
5 at any time; they have got to meet the market forces
6 and adjust their rates to the realities of the situation.

7 I don't understand much about this conflict
8 between debt management and monetary policy. I don't
9 think there is necessarily a conflict. Monetary
10 policy is determined by the monetary needs of the
11 economy as a whole and the treasury has to adjust
12 to it.

13 COMMISSIONER BROWN: Would you care to
14 describe to us how the consulting committee on dealers
15 operates?

16 MR. THOMAS: You mean with the treasury?

17 COMMISSIONER BROWN: Yes.

18 MR. THOMAS: Well, they have two consulting
19 committees; one with the American Bankers' Association
20 and one with the dealers, the so-called dealers'
21 committee, and the investment bankers association is
22 composed of representatives from the dealers and also
23 representatives from the bond departments of the banks.
24 Frequently the president of a bank will be meeting
25 with the bankers' committee and his bond man will be
26 meeting with the dealers' committee at the same time.

27 Now, they come into the treasury generally
28 a few days before the treasury is going to make its
29 announcement as to financing. Actually, what frequently
30 happens is that they will come in on a Wednesday,



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1 the banking committee will meet with the treasury
2 on Wednesday morning and go out and have lunch and
3 come up with these recommendations in the afternoon,
4 and then investment dealers will meet with the
5 treasury Wednesday afternoon and the treasury presents
6 to them a picture of what the debt problem, is how much
7 money they may need, how long it may last them and
8 what refunding operations there may be. Most of them
9 know it generally already, but it gives them more
10 specifically the treasury views as to what it thinks
11 its problems are, and frequently the secretary or
12 the under-secretary will present that and say, "Are
13 there any questions on which you would like to have
14 answers?" or, "Shall we put out low, medium or short-
15 term issues at this time?" and other features of the
16 operation, or should it be on an issue if it is
17 a refunding problem, should it be offered in exchange
18 or offered on a cash issue and pay off the maturing
19 one, various questions of that sort which will depend
20 on what the attitude of the market is at the time
21 and what seems to be coming before the market.

22 The committees will then meet by themselves
23 and come to some recommendations and will present
24 themselves to the treasury, and then at the same time
25 the secretary may be asking the advice of a lot of
26 other people, including the marketing committee
27 and generally I think that the manager of the market
28 accounts sits in with the treasurer in these discussions
29 with the dealers and the chairman will be there, the
30 chairman of the board will be there at various times,

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1 and finally the treasury staff gets away with the
2 secretary and they make up their minds what they are
3 going to issue. The chairman of the board might be
4 there when the actual decision is being discussed
5 or being made, and that is likely to be made around
6 noon on Thursday, and they announce it Thursday after-
7 noon and it appears in the Friday morning papers
8 and the subscriptions come in on Monday. If it is
9 a cash issue it is one day; if an exchange issue
10 they are given three days.

11 THE CHAIRMAN: You mentioned the chairman
12 of the Board. Which board?

13 MR. THOMAS: The Federal Reserve Board.

14 THE CHAIRMAN: The Federal Reserve Board?

15 MR. THOMAS: Yes.

16 THE CHAIRMAN: And the Federal Reserve
17 Board is generally consulted?

18 MR. THOMAS: Yes, but the decision is
19 made by the treasury.

20 THE CHAIRMAN: Yes, I understood that, but
21 they do consult?

22 MR. THOMAS: Oh yes.

23 THE CHAIRMAN: On the maturities of the
24 interest rates and other aspects?

25 MR. THOMAS: That is right. Now, currently
26 the Chairman of the Board has lunch with the secretary
27 of the treasury generally every Monday and any current
28 questions that are coming up are likely to be discussed;
29 the questions that are of mutual interest to the
30 treasury and the board, and I imagine some others at



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THE CHAIRMAN: The Federal Reserve Board.

MR. THOMAS: Yes.

THE CHAIRMAN: And the Federal Reserve

Board is generally constituted?

MR. THOMAS: Yes, but the decision is

made by the treasury.

THE CHAIRMAN: Yes, I understood that, but

they do consult?

MR. THOMAS: Oh yes.

THE CHAIRMAN: On the matters of the

interest rates and other aspects?

MR. THOMAS: That is right. Now, currently

the Chairman of the Board has lunch with the secretary

of the treasury generally every Monday and any current

questions that are coming up are likely to be discussed;

the questions that are of mutual interest to the

treasury and the board, and I imagine some others at



1 times, and then every Wednesday the under-secretary
2 of monetary affairs and the members of his staff --
3 three, four or five of them -- come and have lunch
4 with the board's staff, at which the chairman and
5 the vice-chairman of the board attend and the members
6 of the board's staff engage primarily on the open
7 market operations, and there would be advisors to the
8 board. Primarily what happens is that the advisors
9 to the board and the secretary of the market committee,
10 who is now also head of the international finance
11 division, and when these questions are put -- frequently
12 they are on international questions more and more at
13 this time -- the head of the international finance
14 division would be there and the head of the division
15 of research and statistics and the members of the
16 staff that are engaged primarily in any mapping out
17 of the government securities market, and so forth,
18 and at this meeting the question of the treasury plans
19 and problems -- and sometimes what the Federal Reserve
20 problems are -- are discussed.

21 Of course, nobody makes any commitments
22 as to what might be done at any meetings like that;
23 this is only entirely a matter of opinion and discussion
24 in an attempt to get a mutual understanding of the
25 nature of the problems being faced, and frequently
26 there is a lot of hot argument to express any differences
27 that they have in order to arrive at a concensus with all
28 possible considerations in mind.

29 Then, we have daily contacts with treasury.
30 The treasury gets daily reports on the market situation



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1 directly from New York from the Federal Reserve Bank
2 the same as we do and they are in daily contact with
3 the New York bank and the market in connection with
4 their handling of their cash balances, because they
5 keep a minimum balance with the Federal Reserve and
6 most of the treasury funds are kept out in the
7 commercial banks under what we call our loan accounts,
8 where the funds that come into the banks are credited
9 to the account of the treasury and certain of the
10 big banks charge us under subscriptions for new issues,
11 and then the treasury calls upon these as they need
12 the money, so they have to be in constant contact
13 with the New York Reserve Bank and together they
14 decide what the calls should be. Sometimes those
15 calls are made with two or three days' advance notice to
16 some of the big banks who are subject to call for
17 payments on any day; the call may be around about
18 11 o'clock in the morning and if the treasury balance
19 doesn't conform to the expectations -- that is, the
20 treasury balance with the reserve banks doesn't come
21 up to expectations -- they make a special call to
22 these large banks.



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1 If their treasury has a bigger balance than the
2 need, they will frequently re-deposit in these large
3 banks. That is because the treasury balance at the
4 Federal Reserve affects the supply of reserves available
5 in the market, and they try to keep it even at around
6 \$400 million or \$500 million all the time. So there
7 is constant contact between the treasury and the
8 Federal Reserve on all these matters; free exchange
9 of views; very few secrets. There is a lot in the
10 foreign exchange field and the handling of the gold
11 and bond balances.

12 THE CHAIRMAN: The Federal Reserve position
13 in the consultations would be merely an informal one?

14 MR. THOMAS: Purely advisory.

15 THE CHAIRMAN: Their advice, if they tendered
16 any advice, might be different from any advice given
17 by the treasury officials?

18 MR. THOMAS: Frequently is.

19 THE CHAIRMAN: Except when it has the full
20 responsibility of decisions.

21 MR. THOMAS: It might be different from
22 the advice given by the dealers to the banks.

23 COMMISSIONER BROWN: You mentioned the
24 tax and loan deposit accounts: Do all new issues
25 qualify for these?

26 MR. THOMAS: Cash issues generally do, yes,
27 unless the treasury's cash position is so tight they
28 have to have the money right away. Weekly bill offerings
29 do not because new bills are bid for and old bills
30 have to be paid off, but occasionally the treasury



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1 will put out an issue of one year bills, longer-term
2 bills, or a special issue of tax bills, and put off
3 tax anticipation bills that mature within a week
4 after corporate income tax dates, particularly in
5 March and June, and those bills can be used by the
6 corporations for payment of taxes. Those bills
7 are generally issued at a time when the treasury
8 is spending more money than it is receiving: In July
9 and October particularly, December maybe, and sometimes
10 January. They may be eligible, and generally are
11 eligible, for payment through tax and loan account,
12 but mostly any new issue for cash is likely to be
13 eligible if the treasury does not need that money
14 that promptly, particularly if it is a large issue.
15 It is a sort of an underwriting device. The banks
16 can subscribe and pay for it through tax and loan
17 account. They get the interest on the securities,
18 or they sell the securities if they want to, and then
19 they don't have to pay until the funds are drawn
20 which frequently will last as long as 25 or 30 days
21 -- sometimes longer. So it gives them a little bit of
22 an inducement, and in the meantime the banks will be
23 pushing the securities out into the market if they
24 don't want them themselves. It is a very useful
25 underwriting arrangement.

26 COMMISSIONER BROWN: How do banks qualify
27 to become a depositor? I notice that apparently non-
28 member banks can deposit?

29 MR. THOMAS: Yes. I am not sure I can give
30 you the details on that. They have to be of certain



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1 size, but I think most any bank can qualify except,
2 of course, the very small ones which would not want
3 to undertake the responsibility of subscribing for
4 the minimum amounts. They are divided into three
5 classes: A banks. B banks and C banks. The A banks
6 are the smallest, and the B banks are the medium-sized,
7 and the C banks are the banks with total deposits of
8 over half a billion, and they are the ones that are
9 subject to a daily call. As far as the others
10 are concerned, the call is always at least three days
11 in advance. The A banks are called on maybe much less
12 frequently; the small banks are called on much less
13 frequently than the medium-sized banks.

14 COMMISSIONER BROWN: How is the operation
15 of debt management on outstanding issues co-ordinated
16 with what the Federal Reserve might be doing? As I
17 understand it, that is all done through the Federal
18 Reserve?

19 MR. THOMAS: You mean the exchanges of
20 maturing issues?

21 COMMISSIONER BROWN: No, to the extent that
22 debt management or other government agencies are
23 operating in the market for the longer issues.

24 MR. THOMAS: You mean purchasing of securities
25 for government accounts, treasury accounts, agency
26 accounts?

27 COMMISSIONER BROWN: Yes.

28 MR. THOMAS: The treasury takes the
29 responsibility for that entirely, but it is handled
30 through the trading desk at the New York Reserve bank



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1 in its operations with dealers. They have generally
2 one man who handle purchases for treasury accounts,
3 and generally the market is likely to know whether
4 this is for treasury or Federal Reserve, but they don't
5 always. Frequently there is a deliberate attempt
6 to confuse them a bit so that they don't know whether
7 it is treasury or Federal Reserve, particularly if
8 the Federal Reserve happen to be operating in securities
9 other than bills, so that the market won't draw too
10 many conclusions from the operation. Sometimes they
11 want the market to know and get the presumed benefit
12 of the expectation, or the psychological effect of it.
13 Mostly the operations for treasury account are handled
14 in a rather routine manner so as not to have too much
15 effect on the market. It is handled as any customer's
16 account -- not to push too hard, to get the best price
17 that may be available; but there are times when the
18 treasury may want to shift some funds from one security
19 to another in order to help out a sector of the market
20 that happens to be weak. There is always a delicate
21 question there of the trustee relationship. After
22 all, the treasury is acting in its capacity as a trustee
23 for public funds and it has to always be careful
24 that it won't be accused of sacrificing the trustee
25 relationship just for the purpose of manipulating
26 the market -- putting it in its worst possible terms.

27 On the other hand, there are times when
28 the treasury, like any other investor, would say, "We
29 think this security is out of line and we will do some
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1 by shifting out of one security into another."

2 COMMISSIONER BROWN: We have heard complaints
3 in the Canadian market that the dealers frequently
4 don't know whether the Bank of Canada is acting as
5 agent for a government account or principal, and
6 they have the attitude they should always know when
7 they are acting as an agent.

8 MR. THOMAS: You can't blame them for trying.

9 COMMISSIONER BROWN: The Bank of Canada has
10 had the attitude they would like to tell them at
11 all times. I was wondering if you could tell us
12 what the reaction among the New York dealers would
13 be?

14 MR. THOMAS: Oh yes, they like to know
15 everything. One dealer has a bell in the room, and
16 when there is an indication that the Federal Reserve
17 is in the market this bell rings so that the traders
18 will know what is going on.

19 COMMISSIONER BROWN: Do they have two bells --
20 one for buying and one for selling?

21 MR. THOMAS: Or a light shows, or something
22 like that. It is their business to trade and any
23 information they can get is all to their advantage.

24 COMMISSIONER BROWN: In your paper you
25 said ---

26 MR. THOMAS: But I may say on this point,
27 of course, that the Federal Reserve has always endeavoured
28 to make as much information as it reasonably can
29 available to the market and to the public. We operate
30 on the principle that the more the public knows the



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1 more informed it will be, and the more it will understand
2 the operations rather than on the principle of trying
3 to keep the public uninformed and to keep them guessing.
4 To the extent to which you can keep them informed,
5 without having them misunderstand or play the situation
6 against the best interests of the market or the country,
7 we like to do it.

8 COMMISSIONER GIBSON: You don't see any
9 reason why you should inform them whether you are
10 trading on your own account or on account of the
11 treasury if it is to your advantage not to?

12 MR. THOMAS: Yes, because we generally like
13 not to tell them everything.

14 COMMISSIONER BROWN: You mentioned the
15 Federal Reserve Act prohibits the Federal Reserve
16 from lending directly to or buying securities from
17 the treasury and then you say, "except to a limited
18 extent".

19 MR. THOMAS: Yes.

20 COMMISSIONER BROWN: What is the limited
21 extent?

22 MR. THOMAS: There is an act which is
23 re-passed every two years which permits the Federal
24 Reserve to buy up to \$5 billion of securities directly
25 from the treasury. This prohibition against the
26 Federal Reserve buying from the treasury, I think,
27 was put in by Senator Glass in the early 30's --
28 the Banking Act of 1933. Then there was, however, the
29 exception which was designed originally -- designed
30 primarily, let us say, to permit the treasury to borrow



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2 gets so low and receipts don't come in according to
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4 at any time the treasury expects very large receipts,
5 as it does on tax dates, in a few days and it doesn't
6 want to draw money out of the market to meet current
7 payments and a few days later have a great big increase
8 in its balance. It will just borrow from the Federal
9 Reserve for those few days rather than put that amount
10 of pressure on the market: What we call borrowing
11 under the special certificate. That has at times
12 amounted to a billion or two dollars; it has never
13 gotten up to 5 billion. In recent years it has
14 seldom been used, particularly since they adopted this
15 provision of special calls on C banks that makes it
16 possible for the treasury to balance its cash inflow
17 more closely than it could when it had to make the
18 calls several days in advance and never could make
19 re-deposits. Since that has been done there has been
20 no occasion to use this provision.

21 Also, always one of the arguments for it
22 is that it is there in case of an emergency. If you
23 have an outbreak of war, or a run on banks, or this
24 that and the other, and the treasury has to put out
25 a lot of money, or the market goes to pieces and you
26 can't float an issue within the time limit that is
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28 is definitely understood that it will be used only
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COMMISSIONER BROWN: Mr. Chairman, I had some



1 other questions about the techniques of monetary
2 policy, but perhaps some of the other Commissioners
3 have questions on the debt management.

4 In paragraph 57 you refer to the three
5 well known instruments of monetary management: Discount
6 operations, purchases and sales of securities and
7 bills in the open market, and changes in reserve
8 requirements. I was wondering if you would care to
9 comment on the relative appropriateness of these three
10 different operations particularly with reference to
11 the fragmented banking system of the United States,
12 and possibly, if you would care to, in relation to the
13 different type of banking system in Canada?

14 MR. THOMAS: I think there may be different
15 requirements in those conditions. Certainly in our
16 fragmented or atomized banking system the need for
17 reserve adjustments and the need for liquidity to
18 meet reserve losses, I would presume, would be much
19 greater than in a system of very large branch banks
20 covering the whole wide areas of the country, because
21 so many shifts of funds that take place as between
22 banks would be absorbed within the large branch banks.
23 So that, you would not have the necessity for as many
24 reserve adjustments, or with some banks being short
25 of reserves while others had excess, and also with
26 so many of the banks not having very quick access to
27 money markets I think it is highly desirable that
28 they do have ability to borrow from the Federal
29 Reserve whenever they think it is necessary. Since
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Nethercut & Young

Toronto, Ontario

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2 that the country banks, the small banks, made a lot
3 of their adjustments through the system of inner
4 bank balances with which they had correspondence in
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6 system or through letters and call on the banks on
7 their correspondence for shifting funds from one bank
8 to another, shifting them over to the Federal Reserve.



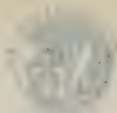
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1 So that a lot of the adjustments were made through
2 that process, but the city banks, of course, can never
3 know what demands are going to be made on them by
4 their correspondents and to some extent the same
5 thing is true with many correspondents; they may
6 shift their balance back and forth. I suppose
7 to some extent they feel obligated to let the bank
8 know if it is going to be any big shift, but our
9 banks are subject to a very wide day to day variation
10 in their reserves which I would think would be greater
11 than your banks would have.

12 Also, we, I think, are probably a little
13 stricter on maintaining reserves up to a point.
14 We do it on a weekly basis and the reports come
15 in very promptly so that the banks have to be very
16 careful about not getting too far out of line in
17 their reserve position in any one day because they
18 have to make it up in another. And then some of
19 the big banks and maybe some of the smaller ones
20 too do some very sharp figuring in trying to avoid
21 having any idle funds around, and if they have any
22 excess they will try to put it to use very quickly
23 either for buying bills or lending it to another bank
24 and it will sometimes end up that we will find that
25 inadvertently they are short of reserves and have
26 to borrow the last day.

27 But we have a lot more access to the dis-
28 count window for all those reasons than I should think
29 you would be likely to have in Canada. We try to
30 see that the discount window is always open and anybody



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having any hole funds around, and if they have any
excess they will try to put it to use very quickly
either for buying bills or lending it to another bank
and it will sometimes end up that we will find that
inadvertently they are short of reserves and have
to borrow the last day.

But we have a lot more access to the dis-
count window for all those reasons than I should think
you would be likely to have in Canada. We try to
keep the discount window always open and anybody



1 can come and borrow, but it is a window and not a door;
2 they are not supposed to go and stay.

3 COMMISSIONER BROWN: Just look in?

4 MR. THOMAS: Yes. They are not supposed
5 to live there. And so, when any bank borrows con-
6 tinuously then there is some administrative checking
7 up on its position and an encouragement to make
8 the adjustments that will take them out of the window.

9 COMMISSIONER MACKINTOSH: What would you
10 consider an overdue stay?

11 MR. THOMAS: Well, it is a little difficult
12 because these things are done on a weekly average
13 basis. You cannot say continuous. A bank can
14 borrow on the first day of a statement week or the
15 last day of a statement week and get out the next.
16 So it would have to be borrowing every week for a
17 period of -- I do not know, in collecting statistics
18 on it what we do is to have a record of the banks
19 that have borrowed so many weeks out of the past 13,
20 those who have borrowed every week out of the past 13
21 and those who have borrowed a majority of the weeks,
22 and others who have not borrowed at all. The majority
23 of banks never borrow at all. There are just a few
24 that really borrow but there are some who are fairly
25 continuous and frequent borrowers so it is figured
26 out on that basis. It depends on the individual
27 situation.
28 There are some banks that are really in
29 trouble and have to borrow. Some banks will deliberately
30 get themselves in trouble so they can borrow, but that



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1 is one of the matters of administration that the reserve
2 banks are responsible for and that varies, of course,
3 depending on what the general volume of borrowing is.
4 So that is the way the discount window is operated.

5 Now, the open market operations are
6 designed to supply the reserves in a way that would
7 make it unnecessary for banks to borrow or to relieve
8 them of the necessity. There is no way of knowing
9 that the open market operations will necessarily
10 result in reserves going to the banks that are al-
11 ready borrowing except that we know when we do have
12 heavy open market purchases and banks are borrowing,
13 those borrowings get reduced awfully fast. There
14 is a very quick response and also the reserves will
15 go to the banks and very few banks will hold excess
16 reserves. There are a few country banks that con-
17 sistently hold excess balances at the central bank just
18 as they hold reserves at correspondent banks. It
19 is a form of secondary liquidity reserves, they think.
20 But generally that is a fairly steady amount. Most
21 other banks do not hold excess reserves so that when-
22 ever the system buys securities it has an immediate
23 effect upon the reserve picture and has an awfully
24 quick reflection on the volume of credit. The banks
25 put their money to use very fast by one device or
26 another.

27 Now, changes in reserve requirements is
28 a much more awkward device because it certainly affects
29 all banks all over the country and involves a whole
30 lot of adjustment. It is very difficult to ever have

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1 an increase in reserve requirements without having a
2 very marked effect on the money market unless it is
3 a situation where there are redundant reserves pretty
4 well scattered around and all you are doing is absorbing
5 those, but even in 1937 when we raised reserve
6 requirements a lot and banks had a good deal of excess
7 requirements before and quite a lot after that, it
8 still did have repercussions because some banks had
9 to meet bank reserves and did not have excess reserves
10 to cover. So I think it is a device that has been
11 very difficult to use except in the case of a very
12 fundamental adjustment in the level of reserves.

13 We have used it at times to make reserves
14 available at a time when you have to make quite a lot,
15 or want to make quite a lot. It was done in 1954 and
16 1958 during the recession when we wanted to put out
17 reserves and when reserve requirements are reduced
18 in city banks the response is very fast. It is a
19 little slower for country banks.

20 Sometimes we might, in a period when you
21 think you want to put out a lot of reserves but do
22 not want to do it in a way that will have a lot of
23 excess reserves running around, you might reduce such
24 reserve requirements, say, in December, at the time
25 of the Christmas currency need and then absorb it by
26 selling government securities.

27 Some of the congress men do not like that
28 because they say this is just one way of increasing
29 bank earnings instead of having the Federal Reserve
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1 get the earnings and then it will go back to the treasury.
2 Of course, on that basis you can finance the whole
3 government debt by printing money. It is just the
4 question of where you draw the line. But in a
5 situation, say, as we had in 1959 and 1960, where
6 we had a large gold outgo, that reduced the bank
7 earnings excess and some reduction in reserve re-
8 quirements might have gone a long way towards meeting
9 that. There is a feeling that commercial banks
10 are rather on the high side. It used to be 7, 12
11 and 13 for the three classes of banks for demand
12 deposits. They are now 12 and 16½ for two classes
13 and you can operate a banking system with a lower
14 level of requirements and there may be a tendency
15 to gradually lower the rates and narrow the range
16 between the two classes. There is a point of view
17 to that effect, that that may be desirable. But
18 it is used primarily for rather major shifts of a
19 structural nature rather than to take care of this
20 variation in reserve needs. I do not know whether
21 that covers all your points.

22 COMMISSIONER BROWN: I think so, although
23 I think we will probably have some questions within
24 each one. For instance, on the discount rate, is
25 this pretty well changed all over the country at once
26 now?

27 MR. THOMAS: Yes.

28 COMMISSIONER BROWN: Do you give a signal
29 or does it follow the event?

30 MR. THOMAS: It generally, I would say, follows



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MR. THOMAS: Generally, I would say, follows



1 the event. The discount rate cannot get too far away
2 from the bill rate. It cannot be kept too far below
3 the bill rate because then the banks will be encouraged
4 to borrow and hold on to their bills and if it is
5 desirable to supply banks with reserves then the
6 system should do it through open market operations
7 and not force them to borrow.

8 If the bill rate is above the discount
9 rate the banks would borrow and increase the supply
10 of reserves and then that would put the market under
11 some pressure. It would also tend to bring the bill
12 rate down a little bit and increase the supply of
13 the reserves but the difference there would be one
14 of the balancing of forces. The borrowing is in a
15 sense a tightening device that offsets to some extent
16 the effect of the additional reserves that are put out.
17 So actually the bill rate seldom gets very far above
18 the discount rate for that reason; the banks will
19 borrow and then sell their bills.

20 Theoretically, the bill rate might get away
21 below the discount rate if banks had abundant reserves
22 and were not under any pressure to borrow. In fact,
23 even under those conditions there are always some
24 banks who would have to make reserve adjustments from
25 week to week and from time to time and if you get a
26 bill rate that is far removed from the discount rate
27 you are likely to get an erratic bill market on purely
28 temporary grounds.

29 Take last year, the bill rate got down to
30 $2\frac{1}{4}$, the discount rate was kept at 3 per cent. When you



the event. The discount rate cannot get too far away from the bill rate. It cannot be kept too far below the bill rate because then the banks will be encouraged to borrow and hold on to their bills and if it is desirable to supply banks with reserves then the discount rate must be kept above the bill rate and not force them to borrow.

If the bill rate is above the discount rate the banks would borrow and increase the supply of reserves and then that would put the market under some pressure. It would also tend to bring the bill rate down a little bit and increase the supply of the reserves but the difference there would be one of the balancing of forces. The borrowing is in a sense a tightening device that offsets to some extent the effect of the additional reserves that are put out. So actually the bill rate seldom gets very far above the discount rate for that reason; the banks will borrow and then sell their bills.

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Take last year, the bill rate got down to 2 1/2, the discount rate was kept at 3 per cent. When you



1 would run into a period of temporary reserve needs
2 around tax time, the bill rate would tend to shoot
3 away up and then tend to come down. I would be
4 inclined to draw the conclusion on that basis that
5 probably the holding of the discount rate at 3 per
6 cent was probably one of the factors that actually
7 kept the bill rate from going down any more than
8 it did because even though we were not -- I mean,
9 you are in a period of slack there and we were
10 following the policy of not letting rate come down,
11 but I thought the holding of the discount rate was
12 one of the factors that kept the bill rate from coming
13 down as much as it did in earlier periods.

14 Of course we had about the same volume
15 of excess reserves running around and about the same
16 level of borrowing and no great credit demand. If
17 we had reduced the discount rate, the bill rate
18 probably would have gone lower so you have to keep
19 the discount rate somewhere near the same level that
20 the bill rate is and generally what happens is that
21 the pressures on the market will cause the bill rate
22 to move up or down prior to a discount rate change.

23 One time it was used as a signal, say, in
24 November 1957. There was a change in the economic
25 situation which was not evident in the statistics.
26 The policy had been a policy of restraint and it changed
27 again, occurring around September. We had no figures
28 that could prove it until really about the end of
29 October or early November and money market rates were
30 still up. There was a little indication in the credit

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1 situation, a flattening in the demand for loans and
2 we began to detect that and decided in the middle of
3 November at an open market committee meeting that the
4 discount rate ought to be lowered. It was about
5 the time that the treasury financing operation was to
6 be announced and the delicate question arose as to
7 whether it should hold off making this change in
8 the discount rate until after the treasury financing
9 or do it before and it was decided it would be fairer
10 to the market in general to get it done and there
11 were very quick meetings of boards of directors and
12 telephone calls and the thing was all done within about
13 24 or 48 hour period after the analysis indicated that
14 it would be desirable and the announcement was made
15 immediately in order to get it done before the
16 treasury financing announcement.

17 COMMISSIONER MACKINTOSH: There is no attempt
18 then to hold the discount rate uniformly at the penalty
19 rate?

20 MR. THOMAS: Oh yes, it has to be a
21 penalty rate. To some extent it is always a penalty
22 rate.

23 COMMISSIONER MACKINTOSH: If it is below
24 the bill rate?

25 MR. THOMAS: If it is below the bill rate --
26 well, the bill rate does not stay up very much. It
27 stays within a one-quarter per cent range generally
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1 temporary purposes because if they sell bills in a
2 tight market and then have to buy back in an easy
3 market they will have to pay more for the bills
4 than they got so they will borrow for a few days
5 to adjust their positions, but it is still something
6 of a penalty. They still do that sometimes when
7 the bill rate is below the discount rate.

8 They will borrow rather than sell bills.
9 If the bill rate is above the discount rate they will
10 tend to sell bills rather than borrow but even so
11 borrowing is always in a sense a penalty. They
12 do not like to borrow.

13 THE CHAIRMAN: We will adjourn for ten
14 minutes.

15
16 (At this point a short recess was taken.)
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1 THE CHAIRMAN: We shall proceed.

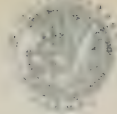
2 COMMISSIONER BROWN: Mr. Thomas, I wonder
3 if we might retrace our steps a little bit. There
4 was a question I omitted to ask in connection with
5 debt management.

6 As we understand the situation, one of
7 the results, or at least one of the things that
8 does happen in the distribution of the Federal debt,
9 and a good part of this may arise because of the way
10 the debt, or distribution in Canada with dealer
11 incentives to make retail sales is handled, is the
12 accomplishment of a larger proportion of our Federal
13 debt in the hands of individuals. Therefore, a
14 relatively wider distribution occurs than would occur
15 if it were only in institutional hands. I wonder
16 if you would care to comment as to whether this
17 might be correct or not and also on the assumption
18 that it is correct, what implications it has in
19 respect of monetary policy?

20 MR. THOMAS: Well, I had not been aware
21 that you had a larger proportion of your debt in the
22 hands of individuals than we have, so I had not thought
23 through the reasons why that might be the case. It
24 might be because your individual investors do not
25 have other means of investing. Is that true of the
26 marketable debt other than savings bonds?

27 COMMISSIONER BROWN: Yes.

28 MR. THOMAS: You are not including savings
29 bonds. You have had a very good distribution of your
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1 COMMISSIONER BROWN: That is right.

2 MR. THOMAS: That is from the standpoint
3 of the treasury, because they have sold quite a lot.

4 I do not know how I could explain that
5 from the standpoint of general economic policy, let
6 us say. Of course, one of the aims of such a debt
7 management and monetary policy is to encourage as
8 much public holding as possible of the debt instruments.
9 A lot of ours goes out through institutions; banks
10 that have time deposits, and they may hold government
11 securities as against this saving in time deposits.
12 I do not know, I would have to analyze the relationships
13 to know what is the significance of the different
14 distribution.

15 COMMISSIONER MACKINTOSH: Our dealers
16 modestly explain that it is the result of their superior
17 selling efforts.

18 MR. THOMAS: Maybe that is what it is.

19 COMMISSIONER BROWN: I bow and say thank
20 you at this point.

21 MR. THOMAS: You operate through more
22 regular security dealers than we do. Our dealers
23 in government securities are few, who in turn operate
24 through the banks and other security dealers all
25 around the country. In floating your debt you sell
26 them to dealers in general. I do not know whether
27 that should make much more difference. Our banks
28 buy them on the tax and loan account basis, so it
29 gives them a little profit. Frequently if they
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2 the issues of tax bills, for example. They borrow
3 on the tax and loan account. Nobody other than the
4 bank would subscribe to these because the banks
5 will pay a higher price for them than a dealer could
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8 a few days and they may turn right around and sell
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11 net return on the operation, maybe it is more correct
12 to say. That is still the process of distribution.
13 I think in the final analysis as to whether government
14 securities are held by the public or by individuals
15 rather than by institutions would depend on the
16 availability of other types of investments for
17 individuals in the relative volume of saving in the
18 country. It may be that the dealers do a better
19 selling job on them.

20 COMMISSIONER BROWN: Well, thank you very
21 much.

22 COMMISSIONER LEMAN: For one thing, Mr.
23 Thomas, I think we discovered last week by talking
24 to some of the witnesses before us that so far as it
25 can be measured, and this is not an accurate measure-
26 ment, a slightly higher proportion of total savings
27 in the United States are in institutions than in Canada.

28 MR. THOMAS: That is what I was wondering,
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COMMISSIONER BROWN: Well, thank you very

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COMMISSIONER LEWIS: For one thing, Mr.

Thomas, I think we discovered last week by talking to some of the witnesses before us that so far as it can be measured, and this is not an accurate measurement, a slightly higher proportion of total savings in the United States are in institutions than in Canada. MR. THOMAS: That is what I was wondering, if that would not be true. So it is institutions that do invest in government securities or mortgages rather



1 than individuals.

2 COMMISSIONER MACKINTOSH: Would it be safe
3 to infer that institutions are more market conscious
4 than individuals?

5 MR. THOMAS: Oh, yes, I think so, yes.
6 They hire vice-presidents and pay them big salaries
7 to do this.

8 COMMISSIONER BROWN: To get back to the
9 question of the discount rate, do the purchase and
10 re-sell accounts or agreements take place just in
11 New York also and are these related to the discount
12 rate?

13 MR. THOMAS: I am glad you brought that
14 up because I failed to cover that.

15 The purchase and re-sale agreements are
16 made only with dealers; non-bank dealers in govern-
17 ment securities, so they are only made, or likely
18 to be made only in New York, although other reserve
19 banks have the authority to make them. I think
20 some have been made in Chicago, but it is most likely
21 that the dealers will do this in the central money
22 market where all the buying and selling is concentrated.
23 They are more likely to do it that way. This does
24 not mean that the money all stays in New York, because
25 this really represents the purchases that dealers
26 have made in securities all over the country, and
27 the actual bills or securities that are put up may
28 be put in another reserve bank. That would be
29 effected through the wire transfer system.

30 As for the relationship of the re-purchase



COMMISSIONER MACKINTOSH: Would it be safe

to infer that institutions are more market conscious

than individuals?

MR. THOMAS: Oh, yes, I think so, yes.

They hire vice-presidents and pay them big salaries

to do this.

COMMISSIONER BROWN: To get back to the

question of the discount rate, do the purchase and

re-sell accounts or agreements take place just in

New York also and are these related to the discount

MR. THOMAS: I am glad you brought that

up because I failed to cover that.

The purchase and re-sale agreements are

made only with dealers; non-bank dealers in govern-

ment securities, so they are only made, or likely

to be made only in New York, although other reserve

banks have the authority to make them. I think

some have been made in Chicago, but it is most likely

that the dealers will do this in the central money

market where all the buying and selling is concentrated.

They are more likely to do it that way. This does

not mean that the money all stays in New York, because

this really represents the purchases that dealers

have made in securities all over the country, and

the actual bills or securities that are put up may

be put in another reserve bank. That would be

effected through the wire transfer system.

As for the relationship of the re-purchase



1 agreements; open market operations and discount, I
2 think it would be correct to say that re-purchase
3 agreements have something of the nature in each.
4 We count them as being open market operations, but
5 actually they are temporary loans to dealers; very
6 temporary. They are paid off rather quickly. They
7 are generally made at a little higher rate. Perhaps
8 not a higher rate than the dealer could have got
9 on them, but a higher rate than is likely to persist,
10 so the dealers will take up the re-sale contracts
11 as fast as they can and pay them off rather promptly.
12 So that it is in the nature of a temporary accommodation
13 that is likely to keep the market under some pressure.
14 It is not as easing as outright purchases.

15 COMMISSIONER LEMAN: Is it at a negotiated
16 rate, do I gather?

17 MR. THOMAS: No, it is not a negotiated
18 rate. The account manager has the authority to set
19 the rate. It cannot be above the discount rate and
20 it can be as low as -- I forget -- one-eighth or one-
21 quarter below the last option rate on the latest
22 issue of 90-day bills. I would have to check the
23 exact wording of that in the policy record which is
24 published in the annual report. Generally it is all
25 done at the discount rate, but in a given situation
26 where you want to put reserves out for a few days
27 and do it quickly, the manager may actually make them
28 available below the discount rate. Generally dealers
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agreements; open market operations and discount. I think it would be correct to say that re-purchase agreements have something of the nature in each. We count them as being open market operations, but as far as they are concerned, they are really temporary. They are paid off rather quickly. They are generally made at a little higher rate. Perhaps not a higher rate than the dealer could have got on them, but a higher rate than is likely to prevail, so the dealers will take up the re-sale contracts as fast as they can and pay them off rather promptly. So that it is in the nature of a temporary accommodation that is likely to keep the market under some pressure. It is not as easy as outright purchases.

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1 from the market and from the Federal Reserve. They
2 can borrow from banks or elsewhere on the market
3 below the discount rate, and generally below the bill
4 rate. Sometimes there are temporary stringencies
5 and they have to come to the Federal Reserve, and
6 whether it is done at the discount rate or a lower
7 rate is a decision for the account manager. Whatever
8 is done it is the same rate for all dealers as of that
9 date.

10 COMMISSIONER LEMAN: Is there a special
11 dealer list which is available?

12 MR. THOMAS: There is a dealer list. It
13 is a list of dealers within the system who will enter
14 into transactions. We used to have a list of so-
15 called approved dealers. We did away with that because
16 it sounded like the giving of special favours to some
17 particular dealers. Now they will operate with any
18 dealer who is prepared to make markets on his own
19 in government securities. They will not operate
20 with a dealer who is just a middleman, but if he is
21 prepared to make markets and buy government securities
22 on his own, and generally he also is expected to
23 participate in the option for treasury bills, then
24 the system will deal with any dealer who has given
25 evidence that he does those things. Also he has to
26 have evidence that he has a capital basis that will
27 give assurance that he can live up to any contract
28 that he enters into.

29 COMMISSIONER LEMAN: You mentioned trading
30 Federal funds. What is the machinery for this?

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COMMISSIONER LEAMAN: You mentioned trading

Federal funds. What is the machinery for this?



1 MR. THOMAS: There are various types of
2 operations for that. A large part of the trading in
3 federal funds, which are in balances at the reserve bank
4 is simply done by one bank obtaining from the other
5 an immediate transfer as of that date, off the books
6 of the Federal Reserve in exchange for a cheque which
7 is cleared through the clearing house the next day.
8 A very large part of the operations are done on that
9 basis.

10 Government security dealers also trade
11 in Federal funds although they probably have to put
12 up at times some collateral, or they may enter into
13 re-purchase agreements on a Federal fund basis, or
14 the dealer may borrow from a bank, either on a
15 Federal fund basis or on a regular delivery basis.
16 Some banks will not lend to dealers on a cash one day
17 basis. They will lend, but the money is not available
18 until the next day. Some will lend on a minimum
19 credit basis. There is a great variety of transactions
20 that can meet the definition of Federal funds. Basically
21 it is an immediate exchange on an immediate basis of
22 a balance with the Federal Reserve, and that will be
23 repaid either the next day or within a very short period
24 of time; mostly the next day. It is a sort of day loan.

25 COMMISSIONER GIBSON: Do you see any
26 objection to the marketing of Federal funds from a
27 central bank point of view?

28 MR. THOMAS: Well, this again is sort of
29 a personal view because there is some feeling in some
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1 the Federal Reserve. It is a way of getting Federal
2 Reserve credit without having the discipline of coming
3 to the Federal Reserve.

4 My own view is that I look at it the other
5 way. It is a device for making use of Federal Reserve
6 funds that are already available in the market. If
7 those funds were not obtained by the banks that needed
8 them, the banks that needed them would be coming to
9 the Federal Reserve and borrowing. We would actually
10 have more credit and more reserves outstanding, and
11 the banks that had the excess would be under pressure
12 to pay them. Whereas, if they could sell them to
13 another bank that needs them temporarily they actually
14 reduce the amount of Federal Reserve credit that is
15 available. At least that is the way I would analyse
16 it.

17 There are others who think that sometimes
18 it is a way of getting away from the discipline of
19 the Federal Reserve and the discount window. If the
20 banks could not get the Federal funds they would have
21 to come in and be subject to more restraint.

22 COMMISSIONER GIBSON: Do you particularly
23 want to see them when they need Federal funds?

24 MR. THOMAS: We get reports every day from
25 all Federal fund transactions from all of our banks,
26 and any action using the discount window is taken
27 into consideration.

28 COMMISSIONER GIBSON: There is one thing I
29 would like to clear up in respect of the discount window.
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COMMISSIONER GIBSON: There is one thing I would like to clear up in respect of the discount window.



1 You told us that you had an analysis of the number of
2 times the banks came to the discount window each week,
3 and you said in a 13 week period there would be some
4 who would come in every week, some four or five weeks,
5 and some would not come at all. Now, you did not
6 make it quite clear, but you did take a mildly dim
7 view of it. The banks that come in every week in
8 a 13 week period; that is a phenomenon with which
9 you are not very happy?

10 MR. THOMAS: Yes. That bank is using
11 Federal Reserve credit. The bank is borrowing in
12 order to increase its lending capacity. If the
13 bank borrows Federal Reserve credit it is putting
14 additional reserve credit in the market, and that
15 may be more than the Federal Reserve wants to supply.
16 It is very important that borrowing be restrictive.
17 Otherwise, if banks come in and feel free to borrow
18 at any time in any amount you would have great difficulty
19 in keeping the supply of reserves under control.

20 COMMISSIONER GIBSON: You do not feel the
21 rate is a sufficient penalty to keep them away?

22 MR. THOMAS: No, it is not always a sufficient
23 penalty.

24 COMMISSIONER MACKINTOSH: What do you do to
25 discourage it?

26 MR. THOMAS: Well, that varies in the
27 different Federal Reserve banks. The Federal Reserve
28 Banks have a great deal of administrative freedom in that
29 regard as to how they discourage it. They will either
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1 or the president of the bank or the chief officer is
2 invited to come in and have a talk with the president
3 of the Reserve Bank or loans officer and analyse the
4 situation to see what that bank is doing in the way
5 of lending; how it is using these funds and what
6 its portfolio is. It is a pretty careful analysis
7 of the bank's position. They find out where this
8 borrowing goes, and find out if the bank is really
9 in difficulty and cannot get out of it.

10 Of course, the bank manager will sometimes
11 say: Do you want me to sell government securities?
12 Are you trying to force me to sell government securities?
13 I think the answer generally is: "We do not tell you
14 how to make this adjustment, that is your decision".
15 There are various ways of doing this. After this
16 practice was started, one bank used to borrow quite
17 frequently and probably for justifiable reasons, and
18 the manager then said: "I am not going to subject my-
19 self to this. I will never borrow".



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1 COMMISSIONER MACKINTOSH: This may be
2 professionally a kind of off-key note, but everything
3 else is the market.

4 MR. THOMAS: Yes.

5 COMMISSIONER MACKINTOSH: There is no
6 moral suasion, no attempt to preach at them; you put
7 your transactions through the market and await the
8 market reactions, but here you say that the discount
9 rate may be even a little below the bill rate but
10 that the best people will not take advantage of that.

11 MR. THOMAS: Well, that is ---

12 COMMISSIONER MACKINTOSH: There is almost
13 an English accent in your voice!

14 MR. THOMAS: Yes, that is the difficulty
15 that arises when you deal with thousands of individual
16 banks; you are always going to find somebody who will
17 take advantage of a privilege, an undue advantage,
18 and then you have to remind them of the conventions.

19 COMMISSIONER MACKINTOSH: What is the
20 reason why it could not be a shade above the bill
21 rate?

22 MR. THOMAS: Well, it is not always the
23 bill rate; some banks might borrow in order to extend
24 credit.

25 COMMISSIONER MACKINTOSH: Oh, I see.

26 MR. THOMAS: You see, there is such a
27 great variety of rates and any bank might find it
28 profitable to borrow it at a discount rate and loan --
29 the bill rate is the more important because by con-
30 vention -- it is mostly through bills that banks do



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1 adjust their reserves; if they want reserves they can
2 always have bills, but actually the bill rate is a
3 more accurate reflector of the degree of pressure
4 that the banks are under at any one time, and that
5 is the instrument which they are most likely to
6 use or it is the instrument that is more closely
7 related to the assessment rate, but actually, if
8 an individual bank wants to go in and borrow and
9 make loans and mortgages, or consumer credit or
10 farmers or what not, he can always find some way of
11 showing that it is a profitable operation and you
12 will have to have a very high discount rate to dis-
13 courage all that sort of thing; whereas it is much
14 better to let them think that they have the privilege
15 for use in a temporary adjustment, but to encourage
16 them not to use it.

17 COMMISSIONER GIBSON: But is there not a
18 maximum amount which any bank can borrow?

19 MR. THOMAS: No.

20 COMMISSIONER GIBSON: Is it a matter of
21 discussion on each occasion?

22 MR. THOMAS: The general rule is that the
23 bank can borrow any money it wants to borrow but if
24 it persists in it then there is some discussion.
25 Nowadays it would be very rare for any Reserve Bank
26 to refuse or even question a bank's request to borrow
27 at the time it makes a request. Later it might; later
28 it might say that you have to get out of debt.

29 COMMISSIONER BROWN: What collateral do
30 you have?



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COMMISSIONER BROWN: What collateral do

you have?



1 MR. THOMAS: Practically all of the
2 borrowing nowadays is on a note which matures within
3 15 days and is secured by short term government securities.
4 That is the most convenient way of borrowing, and most
5 banks keep short term government securities in safe
6 keeping, and we mean in safe-keeping in a Reserve Bank,
7 and it could be supplied within a matter of minutes or
8 hours. Of course, they have the right of borrowing
9 on any so-called eligible paper which, according to
10 the Federal Reserve Act, when we have treasury bills
11 or short term government securities it was a 90-day
12 commercial paper, or you could have a six to nine month
13 agricultural paper.

14 Now, they could go and re-discount that
15 paper if they wanted to or use it as collateral for
16 a single note, but for convenience and ease of operating
17 it gradually moved more into the -- I mean, they did
18 move more into the borrowing with the government securities
19 with collateral. Even in the 1920's most of the
20 borrowing, even when it was based on eligible paper,
21 was on one note with a bunch of eligible paper as
22 collateral, rather than a direct re-discount of the
23 paper.

24 COMMISSIONER BROWN: You mentioned a 15-day
25 note; can they borrow for 13 days or one day?

26 MR. THOMAS: They usually borrow -- I am
27 not sure whether the note is actually written for 15
28 days or one day; it could be written for anything
29 less than the 15 days, but they generally pay it off
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1 they do it for one day they will come in and renew it.
2 I suspect that a good bit of it is on a one-day basis.

3 COMMISSIONER BROWN: This may be kind of
4 a side issue, but they try to avoid borrowing over a
5 weekend?

6 MR. THOMAS: Well, the reserve period
7 ends on Wednesday, and if they come into Friday
8 with a big deficit, that deficit is carried over in
9 his average for three days, so that they may rather
10 borrow on Friday in order to avoid having this effect
11 of an average for the week, but a good bit of the
12 borrowing is made as of Wednesday and may be in
13 rather large amounts to cover the deficit that
14 has accumulated, but if they have a deficit at the
15 beginning of the week they may borrow on Thursday
16 and be sure and pay it off on Friday so it will not
17 carry over the weekend, but they have it at the
18 beginning of the week and if they think they will
19 need it they will borrow, but if they think there is
20 a chance they may adjust their position before the
21 week is over, they will wait and borrow at the end
22 of the week.

23 COMMISSIONER BROWN: Does the surplus also
24 get averaged for the weekend?

25 MR. THOMAS: Yes, what they do is to --
26 you have the reserve balance every day and that is
27 averaged, and then you average their deposits and
28 the deposit position. The deposit position is at
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8 is averaged and balanced off against it. Also, in
9 addition to the reserve balance, you also count the
10 cash in the vault and this is figured as the opening
11 of business; that is something they know they have
12 got at the opening of business.

13 COMMISSIONER BROWN: Would you care to
14 comment on the question of a direct linkage between
15 the discount rate and the bill rate?

16 MR. THOMAS: A direct linkage?

17 COMMISSIONER BROWN: Somewhat the system
18 which we have in Canada.

19 MR. THOMAS: You mean the automatic
20 variation in the discount rate? Well, there are
21 people who think it would be useful to have that sort
22 of system. My view -- and I think this is probably
23 the prevailing view at present, at any rate --
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25 probably, because there are times when we do not mind
26 banks borrowing; we would rather have them borrow and
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3 because we know it is purely temporary -- than to
4 have that pressure coming on to the bill market. I
5 think that is briefly the answer, and sometimes you
6 may not want to let the discount rate go down.

7 In the last year, for example, we were
8 trying to keep the bill rate up and it is more
9 convenient to have a discount rate fixed than to
10 have it run, and this bill rate went down for purely
11 practical reasons and we also have some temporary
12 variations in our bill rate, but I think it is better
13 to have the discount rate fixed.

14 Of course, there is the other argument
15 that impresses some people and I think it should not
16 be ignored and that is the signal effect of discount
17 rate change. This is used as a definite indication
18 of a shift in policy, you might say, or a shift in
19 the situation, the recognition of a shift in the
20 situation.

21 COMMISSIONER LEMAN: In connection with
22 that, Mr. Thomas, someone made the suggestion some
23 time ago that you could still have the benefit of the
24 signal effect by changing that spread.

25 MR. THOMAS: Yes, that has been suggested,
26 but I do not know; it seems to me you can get it more
27 simply by just fixing the rate where you want it,
28 but that is just a matter of slight preference and
29 I would not try to argue too strongly one way or the
30 other.



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1 COMMISSIONER LEMAN: In talking about signals,
2 despite the fact that you do not seem to approve
3 much of persuasion -- or moral suasion -- is it
4 true to say that the Federal Reserve in the States
5 use what is called an open mouth policy of explaining
6 pretty well what its thoughts are about the general
7 situation and does this constantly, or doesn't it?

8 MR. THOMAS: Well, I think it is true
9 that the Federal Reserve endeavours to give the public
10 as much information as it can about what it does
11 and why.

12 Now, by that I think I said to you privately
13 that anyone who is familiar with what the principles
14 are under which the Federal Reserve operates and is
15 familiar with the economic situation, ought to be
16 able to know what Federal Reserve policy is or is
17 likely to be, because the standards are reasonably
18 definite and the system policy is adjusted as nearly
19 as possible to the economic situation, and again
20 there is also this tendency on the part of the market
21 and the public to attribute any change in interest
22 rates or in the degree of stringency in the money market
23 to Federal Reserve policy and it may be due to changes
24 in the market forces. I think that the importance
25 of policy and policy changes is not to over-emphasize
26 it as market values.

27 COMMISSIONER LEMAN: This stand you take on
28 it worries me a little bit because of the fact that
29 people who are in the business, in the financial business,
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COMMISSIONER LEWIS: This stand you take on

it worries me a little bit because of the fact that

people who are in the business, in the financial business



1 should be able to figure out nearly what the Federal
2 Reserve policy should be from time to time, or is from
3 time to time and that this should be as a result of
4 the knowledge which they should have about the
5 condition of the economy, or is it because of the
6 sort of open mouth policy of the Federal Reserve
7 in explaining how it feels in the situation.

8 MR. THOMAS: No, it is more based on the
9 information that is subteley available as to the state
10 of the economy. The Federal Reserve does not have
11 much information that the public in general does not
12 have. We get a little quicker information about
13 the variations in reserves; we get this every day
14 and the public does not have that, and we get a little
15 more information maybe about what the treasury is
16 going to do, but most people can figure that out about
17 as well, and sometimes the information which we have
18 may be misleading rather than accurate. These attempts
19 to look on day to day fluctuations, sometimes, can
20 mislead you, so that as a general proposition I would
21 think that the whole effect /^{of} changes in Federal Reserve
22 policy is over-emphasized. That is one reason for
23 doing away with supporting the government securities
24 market; the dealer has got more interest in knowing
25 what the Federal Reserve is going to do about the
26 market than they were in determining what the real
27 market forces were.

28 COMMISSIONER LEMAN: And that creates problems
29 for the Federal Reserve?
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1 MR. THOMAS: Exactly, not to mention the
2 dealers and the economy as a whole.

3 COMMISSIONER BROWN: The suggestion has
4 been made that if everybody had the same information
5 and became of the same opinion, there would not be
6 a market.

7 MR. THOMAS: It is the differences of views
8 that make the market, but those differences should not
9 necessarily be about what the Federal Reserve policy
10 is going to be, but differences of appraisal of the
11 forces of the market, and people ought to be able to
12 do that as well as the Federal Reserve.

13 COMMISSIONER BROWN: Now, in the open
14 market operations which were discussed -- which were
15 touched on in connection with debt management -- you
16 went into some detail on the daily discussions that
17 took place between the Federal Reserve board in
18 Washington and the market in New York. What sort of
19 operating authority is given to the New York market?

20 MR. THOMAS: To the manager of the account
21 in New York? That is an awfully good question and
22 not a very easy one to answer. I have a copy of the
23 formal directive here which gives the broad operating
24 principles under which he is supposed to run for
25 the next three weeks, and frequently that does not
26 change very much; it is not changed every three weeks,
27 sometimes there are small changes but in general he
28 draws his conclusions from the discussions as to --
29 it goes around as to exactly how he should operate and
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1 he has to adjust to the pressures that develop in
2 the market and there is a tendency sometimes to say,
3 "Well, you will get about the same level of free
4 reserves to excess reserves and minus borrowing at
5 the banks," which indicates this is a measure of a
6 degree of ease or tightness that is occurring in the
7 market. It is not a bad guide for day to day operations,
8 but it is not a satisfactory guide for long term
9 operations because if you get a situation where there
10 is a vigorous credit expansion and a reserve increase
11 at a pretty fast rate and you keep a given volume of
12 free reserves, then you will keep feeding reserves
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1 On the other hand, if there is a credit contraction
2 that is bigger than you think is desirable, and the
3 banks pay off their borrowings and build up excess
4 reserves, and you absorb this excess, you are encouraging
5 a continuation of the contractive forces. So, as
6 a longer run guide free reserves is not a very good
7 guide or market manager. It may be a useful indication
8 to the public itself as to the degree of tightness
9 or ease that is being maintained. But even then it
10 is subject to wide fluctuations because of temporary
11 forces that you don't know about until after the
12 event, because we don't know what the free reserves
13 are as of any day and to the next day, and even some
14 of those elements are estimated: The volume of
15 required reserves we don't know until a couple of
16 weeks later, although we do get daily reports from
17 the big banks that give us a basis for pretty
18 good estimating.

19 Another guide would be, what is the level
20 of required reserves, which is another way of saying,
21 what is the level of money supply or the volume of
22 deposits. So, you maintain a given volume of total
23 reserves that would make allowance for the fluctuations
24 you expect to occur and keep a given volume of reserves.
25 That is theoretically a good guide, but if the banks
26 borrow to obtain those reserves then that is one degree
27 of restraint. If they get them without borrowing,
28 there is another degree of restraint. So, you have
29 to take into consideration where the reserves came
30 from. So, there isn't any single satisfactory day-to-day

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1 guide. You can look at the market behaviour sometimes,
2 and the performance of the market itself would give
3 an indication of a build-up of pressures. You don't
4 know whether those pressures are building up because
5 there is a stronger credit demand, or something is
6 drawing away reserves temporarily, or there is
7 a poor distribution of reserves in some banks and
8 not in others.

9 So, he has to just watch all these forces
10 and try to maintain a volume of reserves that is close
11 to the level that is considered desirable as he
12 possibly can at any period. Therefore, you try to
13 avoid giving him a very specific figure. He has
14 to use a certain amount of judgment, operating within
15 the broad directives.

16 COMMISSIONER MACKINTOSH: Is he ever given
17 a direction as to the level of interest rates?

18 MR. THOMAS: Yes, at some times he is given
19 that, such as the indication to keep the bill rate
20 from falling much -- in fact, that has been a directive
21 in the past year and a half: Keep the bill rate from
22 declining. I think this directive that I had in here
23 has a little interest rate factor in it. Paragraph
24 75 at the bottom of page 30 of my version:

25 "To implement this policy, operations
26 for the System Open Market Account shall
27 be conducted with a view to providing
28 reserves for bank credit and monetary
29 expansion (with allowance for the wide
30 seasonal movements customary at this time



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1 of the year) ..."

2 This was in December.

3 "... but with a somewhat slower rate
4 of increase in total reserves than during
5 recent months. Operations shall place
6 emphasis on continuance of the three-month
7 Treasury Bill rate at close to the top
8 of the range recently prevailing. No
9 overt action shall be taken to reduce unduly
10 the supply of reserves or to bring about
11 a rise in interest rates."

12 You can argue as to whether you need both
13 directives but at this time there was a feeling that
14 they didn't want to let the bill rate go down.

15 COMMISSIONER BROWN: How does he operate?
16 Does he operate by quoting in the market, or does
17 he operate by responding to other people's quotes?

18 MR. THOMAS: Well, he does both. If the
19 operations are small he is likely just -- well, we
20 have a trading desk there with half a dozen traders
21 around a battery of telephones, and dealers are calling
22 in all the time to report on the market, and if they
23 have any offers they are likely to say, "Are you
24 interested in this?", whether they are purchased on
25 treasury or some agency account. They also operate
26 for foreign central banks. Dealers are likely to
27 come in and say, "We have such and such: Would you
28 be interested in it?" Certainly, if there is pressure
29 on the market they will be coming in and saying,
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1 R.P.'s. ", or, "We have a little of this and a little
2 of that." So, if the operation is small they are
3 likely to take up some of those offers that come in,
4 but if you want to engage in a big operation you have
5 what they call a go-around, and the traders at the
6 desk will each take the name of three or four dealers
7 and call as fast as they can and say, "What can you
8 offer us?", and they will take down the offers by
9 issues and by price, or maybe the dealer will say,
10 "Let me think about it and I will call you bank", and
11 within ten minutes they will have a sheet there of
12 offers from all different dealers and they will go
13 down, generally speaking, ^{and} will take those at the best
14 price, or they may make some endeavour to distribute
15 the purchases by types of issues so they don't get
16 too many of one issue, and sometimes they will endeavour
17 to distribute it as much as possible among the different
18 dealers, other things being equal, and in that way
19 they will buy as much as they feel they want to
20 supply in the market, and what they feel they want to
21 supply may sometimes be influenced by the volume of
22 offers. If there are a big bunch of offers at what
23 seems to be reasonably low prices it may be an indication,
24 in itself, that the market needs assistance and they
25 may supply more at the end than they would when they
26 started out. However, generally they will have a rough
27 figure in mind as to what they will need to buy in
28 order to supply the reserves they need to supply
29 for that period or vice versa on the selling. If they
30 can't get it that way they may go out and offer the



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1 dealers and lower the rate to encourage them to come
2 in.

3 COMMISSIONER BROWN: You mentioned they also
4 operate for foreign central banks?

5 MR. THOMAS: Yes. The foreign department
6 of the banks will give the security department the
7 orders for the foreign central banks. Some of the
8 operations for foreign central banks may be done directly
9 through the system. If the foreign central bank wants
10 to buy and the market is strong and you don't want
11 to put any more pressure on the market, the system
12 may sell directly from the system account to this foreign
13 central bank, and the net result of that would be a
14 reduction in the reserve availability, assuming the
15 foreign central bank drew the funds in from the market.
16 If the foreign central bank is buying out of funds
17 already on deposit with the Federal Reserve, it is
18 a wash operation, but still the result in the long
19 run would be a drain on the market because the foreign
20 central bank will either replenish its balance or has
21 previously built up a balance. This is foreign central
22 banks and governments.

23 COMMISSIONER BROWN: Would you care to tell
24 us about the role of the Federal Reserve in the weekly
25 bill auction?

26 MR. THOMAS: On the weekly bill auction,
27 because of this provision that the Federal Reserve
28 cannot buy from the treasury, for a long time the
29 Federal Reserve never entered the auction at all.
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1 All during the war when we were supporting the treasury
2 bill rate at $3/8$ per cent we sort of had an understanding
3 with the dealers they would buy bills and turn around
4 and sell them right back to the Federal Reserve with
5 a very small commission on it -- I forget what it was
6 now. Even though the Federal Reserve held practically
7 all the bills, and was generally just a roll-over, you
8 had to replace the bills that you had and you had to
9 go through this process of going through a dealer
10 and getting him to bid for you. Finally, they
11 came around to deciding -- well, actually the treasury
12 in its offerings of bills said, "We will accept either
13 cash or maturing bills as payment". There it was
14 ruled to be an exchange operation. The Federal
15 Reserve can exchange any of its maturing issues for
16 a new issue without considering that this is a purchase
17 direct from the treasury. So, now what the system
18 does is to put in a bid like every one else for new
19 bills up to the amount of its maturing issue; never
20 any more: sometimes less, depending on whether for
21 policy purposes you want to have some bills run off.
22 The option is done on Monday; the bills are taken up
23 on Thursday, so the decision has to be made on the
24 basis of a projection as to what the reserve situation
25 would be the following Thursday. Frequently, however,
26 a good guess can be made as to that: we know what
27 certain factors that may come into the market at that
28 time will be, but, generally speaking, the system
29 will put in the bid and by the time it puts in its
30 bid there has been an exchange of views on the market



All during the war when we were supporting the treasury bill rate at $3\frac{1}{8}$ per cent we sort of had an understanding with the dealers they would buy bills and turn around and sell them right back to the Federal Reserve with a very small commission on it -- I forget what it was now. Even though the Federal Reserve held practically all the bills, and was generally just a roll-over, you had to replace the bills that you had and you had to go through this process of going through a dealer and came around to deciding -- well, actually the treasury in its offerings of bills said, "We will accept either cash or maturing bills as payment". There it was ruled to be an exchange operation. The Federal Reserve had a new issue without considering that this is a purchase direct from the treasury. So, now what the system does is to put in a bid like every one else for new bills up to the amount of its maturing issues; never any more; sometimes less, depending on whether for policy purposes you want to have some bills run off. The option is done on Monday; the bills are taken up on Thursday, so the decision has to be made on the basis of a prediction as to what the reserve situation will be, but, generally speaking, the system will put in the bid and by the time it puts in its bid there has been an exchange of views on the market



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2 is going and put in the bids so that you will be sure
3 to cover, or maybe put it in very close, so that if
4 there is a bigger demand than they thought there
5 was going to be the system may not get all of its
6 bid, but that is sort of one way of keeping the
7 market on an even keel. Generally, it bids the
8 same way anybody else does except for the limit of
9 the maturing issue.

10 COMMISSIONER BROWN: I have one question
11 I would like to ask on reserve ratios. You mentioned
12 that now they count the till money in the measuring
13 of the reserves?

14 MR. THOMAS: Yes.

15 COMMISSIONER BROWN: Formerly they didn't,
16 and my question is, why was the change made? Did they
17 find the other not practical, or not accurate enough?

18 MR. THOMAS: No. It was a matter of
19 equity as between individual banks. For all practical
20 purposes Federal Reserve notes held in the vault of the
21 bank is the same as a balance with the Federal Reserve
22 Banks so far as the banks' necessity to obtain reserve
23 funds goes. From the standpoint of the pressure
24 on the market both are obligations to the Federal
25 Reserve Banks, and for the bank to obtain any form
26 of clearance he has to go to the Federal Reserve Bank
27 and draw on its reserve balance. By not permitting
28 these balances to count there was also a tendency on
29 the part of the banks, when they got more cash than
30 they needed, to ship it into the Federal Reserve, and



and you have a fairly good idea as to how the bidding is going and put in the bids so that you will be sure to cover, or maybe put it in very close, so that if there is a bigger demand than they thought there was going to be the system may not get all of its bid, but that is sort of one way of keeping the market on an even keel. Generally, it bids the same way anybody else does except for the limit of

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and my question is, why was the change made? Did they find the other not practical, or not accurate enough?

MR. THOMAS: No. It was a matter of

equity as between individual banks. For all practical purposes Federal Reserve notes held in the vault of the bank is the same as a balance with the Federal Reserve Bank so far as the banks' necessity to obtain reserve funds goes. From the standpoint of the pressure on the market both are obligations to the Federal Reserve Bank, and for the bank to obtain any form of clearance he has to go to the Federal Reserve Bank and draw on its reserve balance. By not permitting these balances to count there was also a tendency on the part of the banks, when they got more cash than they needed, to ship it into the Federal Reserve, and



1 this was particularly true over the weekends: they would
2 ship in a lot on Friday and come back and get it on
3 Monday morning, which didn't serve any useful purpose.
4 Then there were some banks that found it necessary
5 or felt it was necessary to hold odd amounts of cash
6 in other banks relative to their deposits. Banks
7 that were far removed from the Federal Reserve Banks
8 would hold more than those that were close to the
9 Federal Reserve Banks, and since they served the same
10 purpose, there were restraints on credit expansion;
11 there were non-earning assets, and it was decided
12 it would be more equitable to permit them to count
13 this cash as part of their reserve balances for meeting
14 required reserves. That was basically the reason
15 why it was done.

16 Originally, the reason -- in fact, in the
17 original Federal Reserve Act they were permitted to
18 count cash. It was discontinued in 1917 during
19 the First World War as a way of drawing in gold
20 from the member banks, into the reserve banks, and
21 also was continued on the grounds it would be an
22 encouragement for the banks to draw out gold rather
23 than hold it in the basic reserves of the reserve
24 system.



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1 There was some misunderstanding about that,
2 not only on gold but on the significance of gold cash.
3 I knew of one very large bank who held several million
4 dollars worth of Federal Reserve notes in its vault
5 in the 1930's at a time when it had excess reserves
6 because they said they did not want to put their
7 deposit in the Federal Reserve Bank because the
8 Federal Reserve Bank would then buy securities
9 with it. They did not understand that Federal
10 Reserve notes were issued by the Federal Reserve Bank
11 in exactly the same way as the Federal Reserve
12 deposit.

13 THE CHAIRMAN: We will adjourn now.

14 MR. THOMAS: I am glad to end on a note
15 of levity.

16 THE CHAIRMAN: It is very appropriate.
17 If it is not inconvenient to you if we meet at a quarter
18 to nine in the morning then we will be sure to finish
19 before the noon recess. You wish to get away and
20 probably some of the members do.

21
22 --- Adjournment.
23
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25
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Royal Commission on Banking and Finance

Hearings
held at

OTTAWA

Vol.

33

Date.

July 20, 1962



Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.



ROYAL COMMISSION ON BANKING
AND FINANCE

- - - - -

Hearings held at Ottawa,
Ontario, on Friday,
July 20th, 1962.

- - - - -

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

- - - - -

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary



THE HONOURABLE THE ATTORNEY GENERAL

OTTAWA

Hearings held at Ottawa,

January 22, 1922

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Chief Justice of Ontario

- Chairman

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Vancouver, British Columbia

Mr. James Douglas Gibson, M.P.

Mr. J. H. ...

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Dr. W. A. Mackintosh

Queen's University

Kingston, Ontario

Mr. H. A. Hanson

- Joint Committee



Ottawa, Ontario,
Friday, July 20, 1962.

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THE CHAIRMAN: We will now resume.

COMMISSIONER BROWN: Mr. Thomas, I have two or three questions that I would like to catch up on that I omitted to ask yesterday. The first one is what type of securities are eligible for purposes of resale agreements -- straight money market securities, or are there others?

MR. THOMAS: Let me look that up. This is specifically set forth in the authorization of operating procedures that is adopted by the Open Market Committee once a year and it reads as follows:

" The Committee reaffirmed the existing authorization to the Federal Reserve Bank of New York to enter into repurchase agreements with non-bank dealers in U.S. Government securities -- an authorization that had been reaffirmed by the Committee each year since it was first granted in this form on August 2, 1955. The authorization, which continued to be subject to the understanding that repurchase agreements at rates below the discount rate would be used only sparingly, specified the following conditions:

1. Such agreements

(a) In no event shall be at a rate below
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"... discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills;"

It cannot be lower than one or the other of those.

It can be higher than the discount rate as I said yesterday --

"(b) Shall be for periods of not to exceed 15 calendar days;

(c) Shall cover only Government securities maturing within 15 months; and

(d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.

2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee

3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System Open Market Account."

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1 COMMISSIONER BROWN: I wonder if you would
2 also give us the reserve requirements of various banks
3 that are not members of the Federal Reserve system,
4 that is, the limit which is placed upon their reserve
5 requirements?

6 MR. THOMAS: Well, they vary quite considerably
7 among the states but mostly their percentage figures
8 are similar to the percentages that are set by the
9 Federal Reserve for member banks. Some states, the
10 largest states at any rate, have authorized their
11 banking boards and banking commissions to make adjust-
12 ments and they generally make the adjustments any time
13 that Federal Reserve changes their requirements but
14 that is not universally true. In some states they
15 have no such legal requirements. I think the State
16 of Illinois has none. In the State of Louisiana
17 they can hold certain state and local government
18 securities as reserves and there are variations of
19 that sort.

20 There was one important difference that
21 no longer exists and that was that the non-member
22 banks counted their vault cash, as well as balances
23 held with other banks, whereas until 1958 or 1959 the
24 member banks could not count vault cash. Consequently,
25 even though there was the same percentage figure, the
26 non-member bank had in effect a lower requirement if
27 vault cash was included. Member banks have to hold
28 their required reserve in the form of vault cash or
29 balances in the Federal Reserve Banks, and in addition
30 need to maintain for working purposes balances with
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1 In actual practice when you compute the total cash
2 holdings of banks relative to their total deposit
3 liabilities their differences are not very great.
4 The banks, as a matter of practice, tend to hold up
5 to as much as 25% of their demand deposits in the
6 form of cash in vault balances with the Reserve banks,
7 and balances with other banks, and that ratio does not
8 vary greatly. It does vary to some extent but not too
9 greatly. Most of the non-member banks are small banks
10 anyhow. It does not make a great deal of difference.
11 Theoretically it can make a difference at some state
12 as in a tight money situation of some sort when the
13 banks were squeezed, the non-member banks would have a
14 little advantage.

15 COMMISSIONER BROWN: Is there any difference
16 between the requirements for non-member banks that
17 are in the deposit insurance scheme?

18 MT. THOMAS: Not on reserves, no. They are
19 regulated as to the payment of interest on demand and
20 time deposits. They are prohibited from paying interest
21 on demand deposits and the Federal District Insurance
22 Commission can set limits of its own to interest on time
23 deposits which have always been identical with those
24 set by the Federal Reserve. There is a little dif-
25 ference in the definition of what is interest and a
26 long argument on it because the Federal Reserve has
27 said that any bank that absorbs exchange charges on cheques
28 payable by other banks obtained on deposit is in effect
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30 deposit and are sent to other banks and those

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1 banks charge exchange and the correspondent bank
2 absorbs it, that is payment of interest. The Federal
3 Deposit Insurance Corporation has as members a lot of
4 non-member banks, who do not pay their cheques at par.
5 They have ruled that that is not payment of interest --
6 an unsettled argument that has been running now for 25
7 years.

8 Mr. Brown, I would like to supplement an
9 answer I gave you yesterday when you raised the question
10 about why private individual investors in the States
11 hold smaller amounts of government securities than in
12 Canada. I think the answer is that most of our rich in-
13 dividual investors hold tax exempt securities --
14 securities of state and local governments and therefore
15 they would be less interested in U.S. government
16 securities. There possibly also is a greater tendency
17 to hold equity rather than fixed interest securities in
18 the States than there is here. I am not sure of that
19 but I imagine that may be one factor but certainly the
20 tax exempt feature must be a very important cause of it.

21 COMMISSIONER GIBSON: Following along Mr.
22 Brown's question about reserve practices, you were
23 mentioning yesterday the different reserve requirements
24 for different kinds of banks against demand deposits
25 and against time deposits. As I understand it the
26 original idea of the different reserves against demand
27 deposits was because of differing needs of liquidity
28 particularly with the smaller banks carrying reserves
29 in the larger banks in cities. You have narrowed
30 this down to two specific areas, the country bank and

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COMMISSIONER GIBSON: Following along Mr.

Brown's question about reserve practices, you were mentioning yesterday the different reserve requirements for different kinds of banks against demand deposits and against time deposits. As I understand it the original idea of the different reserves against demand deposits was because of differing needs of liquidity particularly with the smaller banks carrying reserves in the larger banks in cities. You have narrowed this down to two specific areas, the country bank and



1 the larger banks. What is the philosophy there?

2 Has it the same ratio?

3 MR. THOMAS: Well, on this question I have
4 views that are not necessarily those of the Board but
5 let me say first, to get the points on which there is
6 agreement or at least there is an official explanation,
7 it is not now considered that reserve requirements
8 are for liquidity purposes. The function of reserve
9 requirements essentially is a control over the ability
10 to extend credit on the basis of a given amount of
11 reserves. Actually, a reserve requirement is not
12 liquid in a sense; it is liquid for the purpose of
13 meeting a short-term trend. It is there and can be
14 drawn out but it has to be made up so it is not
15 altogether liquid. It is there also in case of a bank
16 failure or closing and it is an asset which is worth
17 100 per cent and not subject to any depreciation on
18 the value. Generally it is considered that the
19 purpose of reserve requirements are used as a fulcrum,
20 that is, a control over the volume of bank credit
21 and money supply.

22 The second point is the reduction in the
23 classes of cities to two from three. We used to have
24 a central reserve city classification of New York
25 and Chicago banks, especially the larger banks. This
26 change was made not at the suggestion of the Board but
27 under pressure from the large banks over the protests of
28 the Board.

29 There are some members of the Board, some
30 people in the Federal Reserve system who take the view

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2 for all banks so the protest may not have been too
3 vigorous but, nevertheless, it was a majority view of
4 the Board at the time and the unanimous view of the
5 Board that they were not prepared to recommend a
6 uniform requirement partly for very practical reasons.

7 It is very difficult to get uniformity given
8 a differential that exists without them raising require-
9 ments for country banks or lowering them for city
10 banks. This is not only politically unfavourable but
11 also from the standpoint of the effect on the economy
12 exceedingly difficult to raise requirements for any
13 class of bank. It requires them to liquidate assets
14 they have carried for some time and the lowering of
15 requirements for city banks would release a great many
16 reserves faster than would seem advisable and as always
17 whenever any lowering of reserve requirements takes
18 place there is always a pressure towards distributing
19 it over as many banks as possible.

20 After all, there are more country banks
21 than there are city banks and they have runs on them
22 too. So it was practically exceedingly difficult to
23 bring about a state of uniformity although it might be
24 accomplished over a period of time and the American
25 Bankers' Association made a recommendation to that
26 effect.

27 COMMISSIONER GIBSON: Uniformity would be
28 as good as or better from a standpoint of monetary
29 control?

30 MR. THOMAS: From the standpoint of monetary



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2 theory. I happen to hold the theory that I think
3 there are differences between types of money and that
4 these differences should be recognized in the reserve
5 requirements. The very fact that we have a difference
6 in requirements as between demand deposits and time
7 deposits, for example, recognizes that there are
8 differences there. There are people who would argue
9 doing away with all reserve requirements on time
10 deposits. I think the Commission on Money and Credit
11 had a recommendation in that direction or at least a
12 suggestion which seems to me to be inconsistent with
13 the idea that you should have a uniform requirement
14 against time deposits which they also recommended
15 because if there are differences in money quality
16 as between demand deposits there are also differences
17 as between money qualities in time deposits. It is
18 a very difficult concept to measure what these
19 differences are. We can measure them by the turnover
20 which is measured by the debits against chequing
21 accounts but we know that they are over-stated, the
22 differences, because there are certain financial
23 accounts that turn over very rapidly. Take the dealers
24 in government securities, their deposits turn over many
25 times every day and they have a time deposit at the
26 end of the day which is only a fraction of the volume
27 of transactions that go through their account in the
28 course of the day. Always the general run of private
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1 month or twelve times a year or less. The average
2 turnover runs around 20 times a year -- in the country
3 banks 15 times and around 25 in the city banks, 30 to
4 40 at the larger city banks. In fact, the Federal
5 Reserve had a committee in 1931 to study the whole
6 problem of reserve requirements, which made a
7 recommendation for requirements that would be based
8 partly on volume of deposits, partly on turn-over.
9 That was never adopted and never really pushed. The
10 Board was reluctant to push such a difficult scheme
11 as that, although in my opinion it is the only logical
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Green Book

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1 That is one of the failures of my career with the
2 Federal Reserve. I was never able to convince the
3 Board that it should be done.

4 That is the theory of it, anyhow.

5 COMMISSIONER GIBSON: Thank you very much.

6 Would you care to say whether you think
7 the relationship between the two ratios on demand
8 deposits and the ratio on time deposits is fairly
9 reasonable from a practical working point of view,
10 again from the standpoint of monetary policy?

11 MR. THOMAS: Yes. There, of course,
12 is no precise guide; it has to be by rule of thumb.
13 It is going to depend very much on what the banks
14 do about their time deposits. It has been an academic
15 question heretofore.

16 We had the problem in the 1920's when
17 there was a tendency on the part of banks to attract
18 time deposits and a lot of funds which were really
19 demand deposits were shifted into time deposits, and
20 they were allowed to draw cheques on them. Since
21 then we have a regulation which prohibits the payment
22 of interest on demand deposits and limits payment of
23 interest on time deposits. They have worked out a much
24 more precise definition or rule as to what is a time
25 deposit and what is a demand deposit, which we did not
26 have before that.

27 In the nearly thirty years that that has
28 been in existence we have not had any very good test
29 of it because interest rates during most of the period
30 were low. There was no tendency on the part of banks
to pay very high rates on time deposits, or to attract



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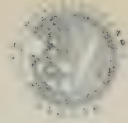
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1 them. They did not need to attract them very much,
2 but gradually the rates on time deposits have risen.
3 Recently the Board permitted the banks to pay
4 as high as $3\frac{1}{2}$ per cent on time and savings deposits,
5 payable in from 6 months to a year and as high as 4 per
6 cent on any such deposits that remain in the bank for
7 as long as a year. This again is along the line of
8 recognition of differences in the money quality of
9 deposits. In respect of deposits of less than six
10 months the bank cannot pay over $2\frac{1}{2}$ per cent, and any-
11 thing less than three months cannot be over one percent,
12 and on anything less than 30 days, no interest can be
13 paid. This gradation is in recognition of the
14 distinction in the degree to which the deposits
15 can be really considered as a savings or as money.

16 Now, as a result the banks have been
17 competing more actively for time deposits. We have
18 had in the past year a tremendous increase in time
19 deposits. It began last year even before the rise
20 in the interest rates, when there was a limit of 3 per
21 cent. We are expecting the interest to be even more
22 this year. There are some possibilities that given a
23 situation in which it is attractive to banks to draw
24 in time deposits and invest them profitably, the turn-
25 over of time deposits will increase. If we have a rise
26 in the general level of interest rates, for example, there
27 might be a tendency to make conditions a little easier
28 for time deposits by relaxing the restrictions. We
29 already see some signs of that. The Board spends
30 a great deal of time making interpretations as to its



them. They did not need to attract them very much, but gradually the rates on time deposits have risen.

Recently the Board permitted the banks to pay as high as $3\frac{1}{2}$ per cent on time and savings deposits, payable in from 6 months to a year and as high as 4 per cent on any such deposits that remain in the bank for as long as a year. This again is along the line of recognition of differences in the money quality of deposits. In respect of deposits of less than six months the bank cannot pay over $2\frac{1}{2}$ per cent, and anything less than three months cannot be over one percent, and on anything less than 30 days, no interest can be paid. This gradation is in recognition of the distinction in the degree to which the deposits can be really considered as a savings or as money.

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1 regulations in respect of time deposits. Banks will
2 come in with various sorts of a gimmick, and the
3 Board must rule as to whether this is really a violation
4 of the regulations or not. If it becomes true that
5 a lot of pretty volatile money, or relatively volatile
6 money, comes into time deposits, then I think this
7 would raise a question as to whether there should
8 be differences between different types of time deposits
9 in reserve requirements. I doubt if that situation
10 will arise or any such remedy will be recommended, but
11 there could be a logical case for it.

12 I certainly think that the argument for
13 having no reserve requirement against time deposits
14 is not a justifiable one. It would be more logical,
15 let us say, to see regulations extended to non-bank
16 financial institutions which engage in similar
17 activities than to do away with it in respect of the
18 banks, because this is awfully close to money.

19 COMMISSIONER BROWN: If the percentage
20 requirements are changed at any time what sort of notice
21 is given?

22 MR. THOMAS: Well, if there is a reduction
23 you do not need to give much notice. Sometimes they
24 have made a reduction in the middle of a reserve
25 period and made it effective at the beginning of the
26 reserve period, but generally there is a little
27 notice.

28 Of course, if requirements are raised, they
29 try to give quite a lot of notice. The only time there
30 has been any increase in requirement percentages recently
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2 cent at the time they were permitted to count their
3 vault cash as reserve and about a dozen banks through-
4 out the country happened to have cash holdings con-
5 siderably less than one per cent of deposits. In the
6 main, country banks hold an average of around 4 per
7 cent, so for most cases it was not any burden.

8 COMMISSIONER LEMAN: Mr. Thomas, there
9 is one more weapon of control, that is used here in
10 Canada, and that is the secondary reserves in banks.
11 Your comments in respect of that subject are mainly
12 concentrated in paragraphs 90 and following in your
13 brief at page 37. I believe you indicate there that
14 you believe that this liquidity factor is something
15 for administration by the banks and you do not believe
16 in it very much from the point of view of monetary
17 control. Am I interpreting those paragraphs correctly?

18 MR. THOMAS: I think so. I also indicated
19 yesterday at one time that they really are not means
20 of monetary control unless the asset which is required
21 to be held to satisfy the liquidity requirement is limited
22 in its availability.

23 Now, the two aspects of monetary policy that
24 are essential are that there be reserve requirements,
25 and there be control over the availability of the
26 reserve assets. The second in a sense is more important
27 than the first. We have countries which do not have
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1 bank credit one or two things happen; it is accompanied
2 by an increase in the demand for currency or it is
3 accompanied by an increase in the demand for foreign
4 exchange. The bank has to come immediately to the
5 central bank to get funds to meet the currency demand
6 or the foreign exchange demand, so they maintain
7 conventional liquidity ratios. I think the same thing
8 is true in Britain. They have no formal reserve re-
9 quirement, but they have a well established tradition
10 and practice. That would not work with us because
11 we have 14,000 banks, each one having different standards,
12 there would always be a few of them that would abuse
13 the privilege. It would be exceedingly difficult
14 to police.

15 I think the secondary reserve idea has been
16 abused in a great many countries. They use it as a
17 form of selective credit control to encourage the
18 banks to put their money into certain types of assets
19 rather than certain other types of assets, and then
20 think they have regulated credit or money supply when
21 actually they have only created an inducement to
22 expand the money supply because the banks go into
23 these particular assets.

24 One central banker in a European country
25 said about the reserve requirement in general that
26 he did not think they were necessary, that they were
27 just devices to make it necessary for the central bank
28 or commercial banks to buy more government securities.
29 Secondary reserve requirements are frequently used simply
30 for that purpose. It was a



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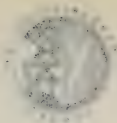


1 means of forcing the banks to finance a deficit. It
2 certainly can be used for that purpose if you want,
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8 in 1947 and 1948 at a time when it was felt that we
9 had to support the market for government securities.
10 This was one way of absorbing funds that we would
11 create by supporting the market for government securities.
12 It is a way of forcing banks to hold on to their
13 government securities rather than selling them
14 to the Federal Reserve and putting their money into
15 something else. At that time a lot of sales of
16 government securities were being made not by banks
17 but by investment institutions, particularly insurance
18 companies. It would not have been a solution, but
19 it might have been better than nothing.

20 COMMISSIONER GIBSON: The basic thinking
21 here of putting in secondary requirements, Mr. Thomas,
22 is more directly connected with the prime responsibility
23 and bank lending policy and changes in central bank
24 practice.

25 MR. THOMAS: You can do that by controlling
26 the cash reserves. In England they refuse to control
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1 and regulate the availability of treasury bills through
2 debt management. That works all right as long as most
3 of the bills that are available are held by the banks,
4 but if a lot of the bills are held outside and the
5 banks can go and bid them away, I think it could break
6 down.

7 COMMISSIONER LEMAN: On the average if
8 we try to make a comparison between the United States
9 banking system and the Canadian one, I think we should
10 find that the cash reserve position is a little higher
11 in the States than in Canada.

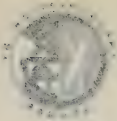
12 MR. THOMAS: That is right.

13 COMMISSIONER LEMAN: But in the States
14 there is no secondary reserve requirement.

15 MR. THOMAS: I do not know that it makes
16 a great deal of difference just how high the reserve
17 requirement ratio is, as long as reserve availability
18 is regulated. The lower the ratio the more control
19 central bank can exert, because the expansion ratio is
20 much greater and there is more leverage. You can argue
21 either way on that one, but it is the degree to which
22 they have the courage or conviction that they should
23 regulate the availability of cash reserves that is
24 important.

25 COMMISSIONER LEMAN: What I wanted to ask
26 you, Mr. Thomas, has reference to the fact that the
27 Federal Reserve nevertheless does watch the total
28 liquidity of the banking system.

29 MR. THOMAS: Oh, yes. I should like to
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1 COMMISSIONER LEMAN: Yes, but is it quite
2 a scattered pattern of liquidity in the whole banking
3 system in the States or is it fairly uniform?

4 MR. THOMAS: I think it is quite scattered,
5 yes. You could work out averages that will show
6 it is fairly uniform, but I think there is quite
7 a variation within the averages. Each bank has a
8 different liquidity need, and different ones have
9 different concepts of their liquidity needs. Some
10 are by nature more cautious than others. There is
11 variation.

12 COMMISSIONER LEMAN: Does this come in again
13 in respect of this distinction between country and
14 city banks?

15 MR. THOMAS: Yes, the city banks have
16 borne the brunt of a great many of the adjustments
17 back and forth, so they try to get liquidity instru-
18 ments. On the other hand they try to keep more fully
19 invested. The country banks are likely to use their
20 correspondent balances, which means that form of
21 liquidity is a means of making adjustments. The
22 country banks are likely to hold relatively as much or
23 perhaps more non-earning liquid assets in excess of
24 required reserves than the city banks. City banks
25 would hold more in treasury bills, or Federal funds,
26 or something of that sort, which they can shift into
27 and out of, and at the same time get a return.

28 The money-market vice-president of a city
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1 that the bank's money is kept in use.

2 COMMISSIONER LEMAN: This is partly because
3 the country banks keep balances with city banks?

4 MR. THOMAS: Yes, that is right.

5 COMMISSIONER LEMAN: Now the other subject
6 I intended to ask you questions about is this. Is
7 there a ceiling on loan rates in respect of members
8 of the Federal system?

9 MR. THOMAS: A ceiling on loan rates;
10 no.

11 COMMISSIONER LEMAN: There is no ceiling?

12 MR. THOMAS: Except in respect of the
13 usury laws in the individual states. Different states
14 have different requirements as to the ceiling on rates
15 that can be charged on loans in general under usury
16 laws. In some states they will have, say, an 8 per
17 cent ceiling, but in a cotton region the farmer will
18 come in and borrow from the bank, say \$1,000 in April.
19 He will get \$920 credit, and he pays back that loan
20 when he sells his cotton, which might be in October or
21 it might be December; it might not be until March, but
22 he pays back \$1,000 and that is still counted as
23 8 per cent. So we find that average return on loans
24 for banks at country banks in the south west may be
25 around 10 or 12 per cent, even though the usury laws
26 may say 8 per cent, or 10 per cent, or something like
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28 COMMISSIONER LEMAN: These laws apply to
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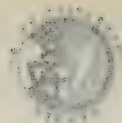


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2 so I would not want to be too precise about that.

3 COMMISSIONER LEMAN: Well, many of the
4 selective controls were briefly referred to yesterday.
5 You mentioned the principal ones which have been used
6 to a limited extent in the United States, such as the
7 stock market margin requirements, finance company
8 down payment requirements, and that sort of thing.
9 Do you feel that those should be used only if there
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11 MR. THOMAS: Well, I would not want to
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5 In the 1920's the Federal Reserve came in and
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16 remains to be seen. It probably would. However, it
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18 of credit that can be unstabilizing.

19 I don't think we have other examples that are
20 striking. Of course, during the war we had consumer
21 credit control and also during the Korean situation,
22 and probably it was partly effective, but the more
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26 Since the removal of the regulation consumer
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10 effectively. It is like foreign exchange control, and
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12 Then, selective controls are only useable,
13 I would say, or feasible in a type of credit in which
14 you have a very specific collateral or very specific
15 terms of re-payment. It is practically impossible to
16 use them for something like business inventory credit.
17 When a business borrows nobody knows what it is
18 borrowing for, borrowing to build up its own inventories
19 and to finance its customers. You have to have a complete
20 study of the sources and uses of funds of every business
21 to really come to some conclusion as to what the credit
22 is being used for. A lot of these loans are short-
23 term and can be shifted from one bank to another, so from
24 the administrative standpoint it would be exceedingly
25 difficult, and I think impossible, to ever try to
26 impose a selective control in business credit.

27 In the final analysis, what difference does
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Besides that, it is an exceedingly difficult thing to administer. There are various ways of getting around such regulations. You have to regulate all retailers and dealers and all types of financial institutions. As legal and administrative problems become more and more difficult, the more restrictive it becomes. It doesn't matter too much when people don't want to borrow, but when they do, then it becomes difficult and the means of evasion get worked out more effectively. It is like foreign exchange control, and things of that sort.

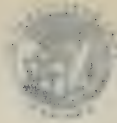
I would say, or feasible in a type of credit in which you have a very specific collateral or very specific terms of re-payment. It is practically impossible to use them for something like business inventory credit. When a business borrows nobody knows what it is borrowing for, borrowing to build up its own inventories and to finance its customers. You have to have a complete study of the sources and uses of funds of every business to really come to some conclusion as to what the credit is being used for. A lot of these loans are short-term and can be shifted from one bank to another. No loan the administrative standpoint it would be exceedingly difficult, and I think impossible, to ever try to impose a selective control in business credit. In the final analysis, what difference does it make? If the banks lend more for one purpose they have less to lend for the other, as long as the



1 central banks exercises control over the total volume,
2 which is the more important thing. It is what the
3 public has in the way of money; it is far more
4 important than the purpose for which the bank loans
5 money in the long run.

6 COMMISSIONER LEMAN: But there are certain
7 uses of money that have quite a lot of a different
8 impact on the economy than other uses?

9 MR. THOMAS: That is right, but they are
10 very difficult to control by just controlling bank
11 credit. The Federal Reserve credit increases at the
12 rate of a billion or two billion a year, and total
13 bank credit increases somewhere from five to ten
14 billion a year on their time deposits, and the total
15 credits from all sources increases from 30 to 60 billion
16 a year, and the uses that people make of their money
17 is a great many times the volume of money outstanding,
18 and to try to control just one small segment of the
19 uses of credit that goes through banks is like trying
20 to control the dog wagging his tail, I guess. It
21 might work, but you can never count on it working
22 and particularly if the pressures are great enough
23 to be important; very likely the public is likely to
24 be ingenious enough to find ways of getting around
25 a regulation of that sort, and also you get new credit
26 institutions organized to do a job which we prohibit
27 the banks from doing. We are always prohibiting banks
28 from doing something and then somebody comes in and
29 creates a government agency to do what the banks are
30 prohibited from doing. We find it in all countries.



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1 COMMISSIONER LEMAN: But besides all these
2 administrative difficulties you mention, and which
3 are noticeable in this field of selective controls,
4 does it come back to your basic objective of maintaining
5 operation of free markets?

6 MR. THOMAS: That is right, and regulating
7 the over-all money supply, the over-all volume of bank
8 credit, which creates the money that becomes available
9 to the public and the public decides what it will use
10 it for. Keep your eye on the main objective and then
11 you have to use other devices for regulating what the
12 public does with its money, but you can't control
13 the use of money by deciding what the Federal Reserve
14 puts its into or even what the banks put their money
15 into.

16 This is not saying that it couldn't regulate
17 the nature of bank loans and investments; one does
18 that for reasons of solvency and soundness and the
19 ensuring of the banks' ability to meet their obligations
20 under all conditions, but it is not necessarily a
21 monetary regulation.

22 COMMISSIONER MACKINTOSH: If we could ask
23 you a few questions about the near banks or the non-
24 banks intermediaries. In your submission, Mr. Thomas,
25 you have a fairly long quotation from Mr. Riefler's
26 submission to the Radcliffe Committee in which he
27 draws a sharp distinction -- he says at one point
28 at page 46 of your submission:

29 "This distinction between commercial
30 banks and other financial institutions is



COMMISSIONER LAMM: But besides all these

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COMMISSIONER MACKINOSH: If we could ask

you a few questions about the new banks or the new

you have a fairly long quotation from Mr. Ralston's

submission to the Radcliffe Committee in which he

draws a sharp distinction -- he says at one point

at page 46 of your submission:

"This distinction between commercial

banks and other financial institutions is



1 a crucial one. It springs from the fact
2 that commercial banks, in contrast to other
3 lending institutions, can expand or contract
4 credit on their own initiative without
5 bidding prior savings from the public."

6 Now, it so happens we have had another brief
7 submitted to us -- although we haven't yet discussed
8 this -- that quotes a statement from R.S. Sayers,
9 which says:

10 "The distinction between banks as the
11 creators of credit and other forms as users
12 or intermediaries in the monetary field is,
13 if not completely false, at least misleading."

14 Then he goes on to say:

15 "The crucial step is that which increases
16 the power to acquire goods and services
17 on the part of people inclined to exercise
18 it immediately. Banks are by no means the
19 only firms to place this power in the hands
20 of others."

21 How sharp do you think this distinction is
22 between the so-called near banks and the banks? There
23 is no question about there being a substantial
24 distinction, but is it a matter of degree?

25 MR. THOMAS: It is decidedly a matter of
26 degree, but there is not a sharp distinction because
27 it gets down to a question of what is it you decide
28 is money -- if you want to call it intervention, that
29 is an invidious word -- but the use of the non-bank
30 institutions certainly must have an influence on



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1 facilitating the flow of money, the use of money, from
2 holding an idle balance into more active investment,
3 and to that extent it unquestionably has an influence
4 on the whole level of economic activity.

5 COMMISSIONER MACKINTOSH: You wouldn't try
6 and base a distinction on the contention that commercial
7 banks create credit?

8 MR. THOMAS: Yes, I think in the final analysis
9 it is the commercial banks who do create the credit
10 and hold the really ultimate liquidity; the other
11 institutions can only lend what they get. In a sense
12 an individual commercial bank can only lend what it
13 gets, but it is likely to get in the first place the
14 increased reserves that are made available and it is
15 the first stage of putting these funds into circulation;
16 the reserves all come back into the bank system.

17 COMMISSIONER MACKINTOSH: That is the first
18 stage, but ---

19 MR. THOMAS: It is the stage which makes
20 possible the expansion in the total volume of money.
21 It is, of course, true that when a deposit is used
22 to pay an insurance premium -- the insurance company
23 makes a mortgage loan -- you have an increase in total
24 assets of the economy. When that money comes back
25 the insurance company puts it back into the bank and
26 unless it use^{it}/to buy securities from the bank or pay
27 off a loan from the bank, there is an increase in
28 the total volume of assets, and that is the reason
29 I say that bank credit is only a fraction of all
30 credit, but still from the standpoint of liquidity,



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1 which is the factor that influences the speed with
2 which the economy can expand or contract, banks are
3 the ultimate source of liquidity and they are the
4 ones that can be more effectively controlled.

5 I think that Riefler makes the point -- if
6 he doesn't make it here, he has made it -- and the
7 point which I endeavour to make here is that we do not
8 ignore liquidity. Liquidity, through non-bank credit,
9 is taken into consideration, and monetary policy has
10 to be adjusted to it. The only thing we can control
11 through monetary policy is what the banks themselves
12 do. If the other institutions are providing the
13 credit needs of the economy, there may be less need for
14 bank credit than there otherwise would be. 1959 was an
15 example of this.

16 It is not that the non-bank institutions are
17 unimportant and outside of the realm, but they are
18 the ones that there is less control over and less need
19 for control over. Control can be largely exercised
20 through regulating the availability of reserves to the
21 banking system.

22 COMMISSIONER MACKINTOSH: You would see no
23 need for extending reserve requirements to any of
24 these institutions?

25 MR. THOMAS: Only in the cases where they
26 set themselves up to provide liquid money that can
27 be withdrawn on short notice or on demand, and thus
28 serves the function of money.

29 Take our savings and loan associations
30 which attract savings and which are really, for all



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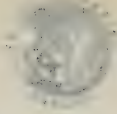
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4 obligated to pay as promptly as banks are obligated.
5 Yet actually the turn-over of their deposits -- the
6 volume of their withdrawals -- is a small fraction of
7 their total deposits outstanding. It is about once
8 every three years, whereas the time deposits of
9 commercial banks seem to turn over about once every
10 two years, and mutual savings banks deposits about
11 once every three or four years; that compares with a
12 turn-over on demand deposits, that ranges from 12 to
13 20 or up to 30 or 40 times a year. It is hard to
14 make a very strong case for imposing reserve require-
15 ments on these various savings accounts, but if with-
16 drawals from them should become an active element in
17 the use of money, then I think some moderate reserve
18 requirement would be appropriate.

19 COMMISSIONER MACKINTOSH: And you base it
20 pretty much on the rate of turn-over of their deposits?

21 MR. THOMAS: I would use that as evidence
22 of whether it is needed or not. I don't know that
23 I would base it necessarily on that, but usually it
24 is evidence of the need.

25 COMMISSIONER MACKINTOSH: Thank you, that
26 is all I have.

27 COMMISSIONER GIBSON: Mr. Thomas, I would
28 like to ask you a question or two about the relationship
29 between the Federal Reserve system and the government.
30 You make certain comments on this subject in paragraphs



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1 12 to 19. In paragraph 13 you make this statement:

2 "In many respects the Federal Reserve

3 is probably more removed from Presidential

4 authority than other independent agencies.

5 It is also administratively removed from the

6 budgetary control of Congressional

7 appropriations."

8 Would you care to develop the statement that it is

9 more removed from Presidential authority than other

10 independent agencies?

11 MR. THOMAS: Well, I don't know how I can

12 develop it much. It is probably a matter of judgment

13 to some extent. Control might be accomplished through

14 the budgetary control over the expenditures. The

15 Federal Reserve doesn't operate through the Federal

16 budget or through appropriations by Congress, but I

17 don't think that is the important part.

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2 Federal Reserve is performing a function which has
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5 making is designed to protect them from control of any
6 one individual or any one group. The president should
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8 ation. Woodrow Wilson definitely took the position he
9 would not even consult with the chairman of the board,
10 or the governor of the board as it was then. He didn't
11 want to be accused of endeavouring to influence them.
12 Senator Glass, who was the author of the Federal Reserve
13 Act, and one time Secretary of the Treasury, and was
14 also active in the passing of the Banking Act of 1935,
15 which removed the Secretary of the Treasury and
16 Comptroller of the Currency as ex officio members of
17 the Board, took the position that the Federal Reserve
18 should be independent of executive authority. The
19 whole history of nations shows that the princes and kings
20 and democratic governments have a proclivity for using
21 the money-creating power for special purposes which has
22 not always been advantageous or in the public interest.

23 COMMISSIONER GIBSON: This is related to the
24 basic American approach to separated powers?

25 MR. THOMAS: It is partly related to the fact
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1 there is the view that there are limitations on the
2 power of the president to intervene in the decisions
3 of those agencies.

4 COMMISSIONER GIBSON: Has there ever been
5 any presidential intervention with the Reserve?

6 MR. THOMAS: There was an attempt to
7 intervene in 1951. President Truman endeavoured to
8 call the open market committee in and tell them
9 what he thought they ought to do.

10 COMMISSIONER GIBSON: These were the events
11 leading up to the accord?

12 MR. THOMAS: Yes.

13 COMMISSIONER GIBSON: Could you tell us
14 a little about that?

15 MR. THOMAS: I could tell you a great deal
16 about it; I was very much in that. The situation was
17 one where during the war the system had pegged the
18 price of government securities, as had all countries,
19 and unfortunately it pegged at a very low rate which
20 happened to be existing at the time the war began
21 as the result of a long period of depression and idle
22 money. Gradually, in the post-war period, those pegs
23 had continued, but we found it more and more difficult
24 to exert control over the money supply and the
25 availability of credit while continuing to buy government
26 securities at a fixed rate and pegged at $2\frac{1}{2}$ per cent
27 long-term interest rate as the resources of the economy
28 came more fully to be used, and in view of the very
29 large volume of public debt outstanding, it made all
30 this debt the same as money. The effects of this were



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this task the more so. The effects of this were



1 ameliorated to some extent due to the fact that in
2 post-war years there were very large budgetary surpluses.
3 In 1949 a mild recession or adjustment in economic
4 activity developed. But when the Korean situation
5 broke out in 1950 it became evident there were going
6 to be strong pressures on the economy. The public,
7 remembering what had happened in the war, went into a
8 surge of all sorts of buying and a wave of selling of
9 government securities to the Federal Reserve. Interest
10 rates were very low at that time. The Treasury put out
11 a $1\frac{1}{4}$ percent note issue in August, 1950 against the
12 advice of the system. The system had to buy up
13 practically all of that issue in order to make it pos-
14 sible, and then sell something else to absorb reserves.

15 There was a wave of more and more of the
16 holders of long-term government securities selling to
17 the Federal Reserve. It became obvious something had
18 to be done to stop that. The administration took the
19 position they didn't want interest rates to rise. The
20 Secretary of the Treasury made a speech on January 18th,
21 1951 that he would not have them rise. At a meeting
22 of the open market committee in February it was decided
23 that some increase was unavoidable. The President
24 called a meeting of the committee and discussed the
25 question with them. There was no very specific re-
26 quest to do anything. The chairman of the Board
27 presented the situation, and the President made some
28 nice remarks, but shortly after there was a statement
29 by the President that he expected interest rates would
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1 this was not a justifiable expectation. About that
2 time the treasury was again facing a problem of
3 financing, and the committee wrote a letter to the
4 secretary of the treasury saying, "This is the
5 programme we suggest following in order to get out of
6 this." Mr. Martin was then an assistant secretary
7 of the treasury, and he said to the secretary, "Here
8 is a basis for discussion. Let us get together and
9 discuss this." There was a group of three staff members
10 from the Federal Reserve and three staff members from
11 the treasury, including Martin as a staff member, who
12 got together to work out a programme of action which
13 would make it possible to get away from the pegs
14 through a gradual process, and one feature of it was
15 a refunding or an offer to holders of outstanding $2\frac{1}{2}$
16 per cent bonds to convert them into $2\frac{3}{4}$ per cent bonds
17 that would be non-marketable but exchangeable for
18 a short-term note at $1\frac{1}{2}$ per cent interest rate that
19 would be marketable, which provided a little higher
20 return for those who held the $2\frac{1}{2}$ per cents, so they
21 could get out and at the same time not deprive them
22 completely of their marketability. That was a device
23 for assisting the movement. It was not an essential
24 part of it, and that was finally agreed to by the
25 secretary of the treasury and the open market committee
26 after many days and long nights of work and discussion.
27 From there on the process was gradually moved toward
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1 of the treasury and the board of governors are now
2 pretty clearly established, are they not?

3 MR. THOMAS: Yes, I think you could say that.
4 The then chairman of the board, Chairman McCabe, resigned
5 and Martin was made chairman of the board and he is
6 in force today. He has said that Federal Reserve-treasury
7 accord came about not because of the working of any
8 individual -- modestly -- but because it was absolutely
9 necessary; there was no other alternative. However,
10 it is a demonstration of the attempt of the executive
11 to use his power which was resisted.

12 COMMISSIONER GIBSON: Would you say anything
13 about the freedom of the Federal Reserve system from
14 budgetary control of Congress. You said in your paper
15 that the system is subject to the surveillance of
16 the ---

17 MR. THOMAS: Yes.

18 COMMISSIONER GIBSON: Would you tell us just
19 what that means?

20 MR. THOMAS: It means a lot of public hearings
21 and a lot of questions. One member of the banking
22 and currency committee was also chairman of the joint
23 economic committee, and used that privilege very
24 actively. He has studied all the budgets of the
25 Federal Reserve banks and all the expenditures and
26 reserve accounts, and the budgets of the board, but
27 the system was freed from this budgetary control
28 primarily by the provision of the Banking Act of 1935 --
29 or, maybe 1933 -- that was put in by Senator Glass
30 deliberately for the purpose of making it possible for



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1 the system not to be unduly influenced even by Congress
2 in its exercise of what he considered to be their
3 monetary powers. The privilege has not been abused.
4 The board is very strong in its budgetary controls
5 both over its own operations and over those of the
6 Federal Reserve banks. But there is a little more
7 leeway and it does remove the possibility of a particular
8 group of Congress saying, "We will approve your budget
9 if you do a certain thing", and makes it necessary
10 that if Congress wants to disapprove of the monetary
11 policies followed by the system it will do it directly
12 and not indirectly.

13 COMMISSIONER GIBSON: Do your officers spend
14 a good deal of time explaining your policies to
15 Congressional committees -- your senior officers?

16 MR. THOMAS: The chairman does most of it,
17 or sometimes some member of the board will do it; but
18 it is mostly the chairman. The staff of the board has
19 to work on preparing testimony and material and so forth.
20 A great deal of time is spent not only on policy
21 matters but also on the detailed inquiries, let us say.

22 COMMISSIONER GIBSON: Who takes the most
23 interest in the Federal Reserve -- the Senate or
24 the House?

25 MR. THOMAS: Right now it is Congressman
26 Pottman who is going to be the next chairman of the
27 banking and currency committee and is now chairman
28 of the joint economic committee, but at times Senator
29 Douglas has taken quite an interest, although his
30 interest has been less than it was 12 or 13 years ago.



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1 In fact, Senator Douglas's inquiry of 1948, in the
2 recommendations he made, gave a very strong basis
3 for the Federal Reserve Treasury accord. The Chairman
4 of the two banking committees also are actively
5 interested.

6 COMMISSIONER GIBSON: Do you feel you are
7 reasonably successful in keeping members of Congress
8 in touch with what the Federal Reserve system is trying
9 to do?

10 MR. THOMAS: I doubt if there is any agency
11 of government anywhere in the world that provides
12 more information as to its activities than the Federal
13 Reserve system, except, of course, the legislative
14 agencies and the courts where nearly all their proceed-
15 ings are public.

16 COMMISSIONER GIBSON: Do you get constant
17 questions, or do you only get questions when a finance
18 committee of the House or the Senate is operating?

19 MR. THOMAS: We get frequent questions, some-
20 times by telephone and sometimes by letter and sometimes
21 by official inquiry through committees.

22 COMMISSIONER GIBSON: Are questions asked in
23 the House of Representatives and in the Senate on the
24 floor about your activities?

25 MR. THOMAS: No member of the executive
26 department appears on the floor of Congress, so they are
27 more likely to be asked questions in committees.

28 Speeches are made on the floor about it every week. We
29 had one member of the Senate who made a speech every
30 Saturday at 4:30 -- in the 20's. COMMISSIONER LEMAN:

In this context what was the meaning of comments in the



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1 commission report about making the term of the Federal
2 Reserve board chairman concurrent with the president's
3 term?

4 MR. THOMAS: That is thought to have been
5 the original intention of the Act, but the chairman
6 is designated for a term of four years, but as it
7 was applied the chairman's term has never ended anywhere near
8 the term of the president, so that the new president
9 does not have the right to designate a new chairman
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1 I think Mr Hartman's term as chairman will expire next
2 year.

3 Now, you can argue either way on that. One
4 of the reasons for making it possible for the president
5 to appoint the new chairman has to do with ease
6 of communication. It is more likely that the
7 president will be willing to communicate with a
8 chairman of his own choice than communicate with
9 a man he does not have confidence in.

10 There are ways of handling that, of course.
11 If the man is chairman and he feels ^{he has} lost or does not
12 have communication with the president, and that the
13 functioning of the system is being handicapped as
14 a result, he can always resign his position as
15 chairman. Or, if he feels through communication
16 he would be subjected to a pressure to do something
17 which he thinks would be undesirable he can stay
18 and fight it out. Chairman Martin has taken the
19 position that he thinks a change would be desirable.

20 COMMISSIONER LEMAN: Do you think it might
21 have a tendency to cause the Federal Reserve system
22 to be in closer co-operation with government policy
23 on other counts?

24 MR. THOMAS: Well, I would like to get
25 this off the record, if I may. This is not anything
26 very important, but I would rather not put it on
27 the record.

28 In the present situation --

29 THE CHAIRMAN: Well, Mr. Thomas, members
30 of the press are present.



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In the present situation --

THE CHAIRMAN: Well, Mr. Thomas, members of the press are present.



1 MR. THOMAS: I will trust the press. I
2 have talked to the press frequently, and on the
3 understanding that they will not --

4 THE CHAIRMAN: Is that understood?

5 MR. THOMAS: This is not anything very
6 spectacular. It is just a personal opinion
7 about personalities, and I think it would be in-
8 discreet for me to say things in public of this
9 nature.

10 THE CHAIRMAN: Well, I think it would be
11 preferable not to say it except in private con-
12 versation some time.

13 MR. THOMAS: All right, we will leave it
14 out then. I think I have already said it to some
15 members. It is just a personal view about the
16 relations of the present chairman to the present
17 president. Their relations are very fine. That
18 is what I wanted to say.

19 COMMISSIONER BROWN: In respect to this
20 relationship with the government, we discussed earlier
21 collaboration or co-ordination of debt management and
22 monetary policy. We have not really had any dis-
23 cussion about the collaboration on fiscal policy
24 and monetary policy. You do mention it briefly
25 in paragraph 17.

26 MR. THOMAS: Well, I think fiscal policy
27 is something that is determined by Congress and the
28 President, and it is a matter of legislation. The
29 board can have views about it and has expressed views
30 about it certainly to the treasury and to the members



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27 is something that is determined by Congress and the

28 President, and it is a matter of legislation. The

29 board can have views about it and has expressed views

30 about it frequently in the present and in the past.



1 of the Council of Economic Advisors, and they ask them
2 to express views to Congress as to what would be the
3 appropriate fiscal policy under the circumstances.
4 This is a matter of opinion or judgment, but once
5 that fiscal policy is decided then one of the things
6 that you have to take for granted, is that the govern-
7 ment is going to have to borrow so much money, or is
8 going to be able to pay off so much debt, as the case
9 may be, which is more rare, but if in borrowing that
10 amount of money it puts pressures on the economy, you
11 have the same problem as debt management. The pres-
12 sures have to be permitted to be expressed and the
13 treasury has to compete in the market for the
14 volume of lendable funds that are available, and
15 it is not a function of the Federal Reserve to make
16 those funds available regardless of the need of the
17 monetary situation at the time.

18 That is exactly what happened in 1959.
19 The government had a big deficit and had a large
20 volume of borrowing, and it had to compete in the
21 market. It raised this money and showed definitely
22 that you can have a government deficit which can
23 be financed outside the banking system if the occasion
24 calls for that sort of a monetary policy.

25 COMMISSIONER MACKINTOSH: Did it handicap
26 you in doing that by the maximum rate on government
27 debt?

28 MR. THOMAS: Yes, it definitely did so.
29 The maximum rate applies only to bonds which have
30 an initial maturity of over five years. The treasury



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MR. THOMAS: Yes, it definitely did so.
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1 had to borrow on shorter term paper and it was put at
2 5 per cent for five year money. Now, it is possible
3 that under those conditions the Treasury might have been
4 able to borrow long-term money at $4\frac{1}{2}$ per cent, because
5 the long-term investors would say: Well, if we can
6 get $4\frac{1}{2}$ per cent for this period, we better take ad-
7 vantage of it, it may not last.

8 Now, the question as to whether you save
9 money in the long run by borrowing for a short time
10 at 5 per cent or a long time at $4\frac{1}{2}$ per cent depends
11 on your judgment as to what the average level of
12 interest rate is going to be over the next five to
13 twenty years.

14 COMMISSIONER LEMAN: Well, in respect of
15 matters like ceilings on interest rates for long-
16 term debt of the Federal government in the United
17 States, I suppose the Federal Reserve officials may
18 be consulted as to what they think in respect of these
19 matters when there are hearings, et cetera? Are
20 they matters in respect of which they would volunteer
21 counsel to Congress?

22 MR. THOMAS: I am not sure exactly how that
23 worked out, but actually in those hearings before
24 the House Ways and Means Committee, the Chairman of
25 the Board actively took part. Whether this was at
26 the request of the Secretary to the Treasury or at
27 the request of Congress, I do not know. The Chairman
28 and staff members sat through, not only public hearings,
29 but also the executive sessions of the committee in
30 writing its bill. It was a very interesting ex-

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1 perience.

2 COMMISSIONER GIBSON: Is there quite a lot
3 of communication between the senior officers of the
4 Board of Governors and the Treasury, or Council of
5 Economic Advisors?

6 MR. THOMAS: Yes.

7 COMMISSIONER GIBSON: Do these people see
8 each other quite a bit?

9 MR. THOMAS: Quite a bit.

10 COMMISSIONER GIBSON: Do they bang ideas
11 around together?

12 MR. THOMAS: Yes.

13 COMMISSIONER GIBSON: In other words there
14 is a constant process of discussion going on?

15 MR. THOMAS: Yes, on interdepartmental com-
16 mittees, the Federal Reserve staff is likely to be
17 represented. The preparations and projections of
18 economic activity for the purposes of estimating pos-
19 sible budget receipts are worked out by this inter-
20 departmental group, on which the Board's staff is
21 represented. There is constant contact; almost daily
22 contact with Treasury people in respect to one item
23 or another. There is a formal or informal luncheon,
24 as the case may be, every Wednesday. There is direct
25 contact between the Chairman and the Secretary frequent-
26 ly, particularly in respect of any important matters.
27 The Chairman



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1 of the Council of Economic Advisors and other members
2 of the Council of Economic Advisors and members of the
3 Board probably meet either formally or informally once
4 every two or three weeks.

5 COMMISSIONER GIBSON: Going down the line
6 a bit, do you encourage your officers to meet with
7 Treasury people and so on?

8 MR. THOMAS: Oh yes, yes.

9 COMMISSIONER GIBSON: You are not afraid
10 that they might get their ideas changed?

11 MR. THOMAS: There is a mutual interchange,
12 if you have enough confidence in your own power of
13 convincing them. The report of the Council of
14 Economic Advisors is distributed around many
15 government agencies and read in the staff of the
16 Board. It used to arrive every year on Christmas
17 Eve. Then they changed the date so it could come
18 on New Year's.

19 COMMISSIONER GIBSON: You say, Mr. Thomas,
20 that you have a competitive system of ideas in
21 Washington?

22 MR. THOMAS: Decidedly, yes.

23 THE CHAIRMAN: We will adjourn now for
24 ten minutes.

25 ---RECESS

26
27 THE CHAIRMAN: We shall now resume.

28 COMMISSIONER HARROLD: Just a question or two
29 about the section on organization of personnel of the
30 Federal Reserve System.

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MR. THOMAS: Definitely, yes.

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COMMISSIONER HARPOLE: Just a question or two

about the section on organization of personnel of the

Federal Reserve



1 twelve Federal Reserve banks and 24 branches. You
2 say its officers and employees are residents of the
3 Federal Reserve district, and its transactions are
4 with regional and local banks and businesses. What
5 other actual businesses does it carry on business
6 with besides the banks as such, and what kind of
7 business?

8 MR. THOMAS: Well, actually from the stand-
9 point of business I am not sure that there is much
10 except the usual administrative procedures of operating
11 a bank in respect of things like purchases of supplies
12 and insurance and payments of local taxes. That
13 is a governmental thing, of course. They operate
14 pretty much as a local business organization would
15 operate from the standpoint of those matters.

16 Of course, acting as fiscal agents for
17 the treasury, they would have a lot of contacts with
18 business collecting and setting up tax and loan
19 accounts, and tax payment receipts, and social security
20 taxes, but most of those would come again through
21 the governmental agencies. Most of the business
22 is with banks. There is not much contact with
23 business.

24 COMMISSIONER HARROLD: I suppose there
25 would be practically no contact with the general
26 public as such in respect of ordinary banking transac-
27 tions?

28 MR. THOMAS: That is right.

29 COMMISSIONER HARROLD: Of the 24 branches
30 there are not necessarily two located in each region?

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there are not necessarily two located in each region?



1 MR. THOMAS: No, it depends on the region.
2 New York has a branch at Buffalo. Philadelphia has
3 no branch. Richmond has a branch at Baltimore and
4 one at Charlotte. Cleveland has a branch at Pittsburgh
5 and one in Cincinnati. Chicago has -- I do not believe
6 Chicago has any branch; oh, Detroit, of course, yes.
7 St. Louis has a number of branches; Louisville, Memphis,
8 Little Rock, Jacksonville, Birmingham, New Orleans and
9 Nashville. St. Louis has a branch in Memphis as well.
10 Minneapolis has one of the longest districts but has
11 a branch only in Helena, Montana. It is very far
12 removed. San Francisco has branches in Seattle,
13 Salt Lake City and Los Angeles. I think that is
14 all. Kansas City has branches in Oklahoma City and
15 Denver. Dallas has branches in San Antonio, El Paso
16 and Houston.

17 I am not sure that I named them all, but
18 there are a great variety depending on the distance,
19 the geography and the location of centres.

20 COMMISSIONER HARROLD: It depends more
21 on convenience because of geographic reasons than for
22 any other reason?

23 MR. THOMAS: Yes, the branches are used
24 for paying out currency and for clearing cheques and
25 for handling fiscal agency functions rather than for
26 any particular policy reason, although the branches
27 also will be making discounts or money advances to
28 member banks when they have occasion
29 to do so.
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1 COMMISSIONER HARROLD: In the statutory
2 qualifications in respect of the Board of Governors,
3 it is mentioned that they cannot be officers or
4 directors of any bank or banking institution, trust
5 company or Federal Reserve bank. What is the
6 definition of a banking institution of which they
7 cannot be a director or officer?

8 MR. THOMAS: That means any commercial
9 banking institution. I think there are some fairly
10 definite legal definitions of what is a commercial
11 banking institution; an institution that accepts
12 deposits primarily and provides a chequing function.
13 I suppose it would also include mutual savings banks,
14 too, perhaps. It would not necessarily include
15 what we call investment banking, although as a matter
16 of practice very few of them are likely to be directors.
17 If they were they would have certainly to break their
18 connection.

19 COMMISSIONER HARROLD: On the question
20 of the regional type of organization you attach
21 considerable importance to this, I believe. Does
22 this involve a question here again of convenience
23 in having the central bank system spread over the
24 country because of geographical reasons?

25 MR. THOMAS: I think there are various
26 reasons why the regional set up is useful which do
27 not necessarily impinge on the functioning of the
28 monetary system in its broad theoretical sense.

29 The Federal Reserve Banks, of course,
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...institutions ...
...institutions ...
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directors of any bank or banking institution, bank
company or Federal Reserve bank. What is the
definition of a banking institution of which they
cannot be a director or officer?

MR. THOMAS: That means any commercial

definite legal definition of what is a commercial

banking institution; an institution that accepts

deposits primarily and provides a checking function.

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1 exercise a great many administrative functions; the
2 clearing of cheques, the provision of currency as
3 well as fiscal agency functions. These are pretty
4 big jobs, actually, and they are the things that take
5 up most of the personnel and involve most of the work.

6 Having the Federal Reserve Bank
7 president on the Open Market Committee, this gives
8 them a broader sense of participation in the formulation
9 of monetary policies. The whole idea that each
10 Federal Reserve Bank might formulate different
11 policies has been found not to be workable. The policies
12 have to be national in scope, but there is an
13 advantage in knowing that these very high grade
14 Reserve Bank officials do keep in touch with regional
15 situations. They have a lot of contact with business
16 men and bankers, and at the same time are in a true
17 sense of the word public officials with public
18 responsibilities. They bring to Washington a great
19 deal of broad useful advice and judgment. They
20 take their jobs very conscientiously and work very
21 hard at them.

22 Also they serve a useful purpose from a
23 public relations standpoint, and a public education
24 standpoint in giving a better understanding of the
25 functioning of the system, and why it does these
26 things in the local community. It gives a feeling
27 of participation. The same thing is true in respect
28 of the directors of Reserve Banks. Their actual
29 powers in formulation of monetary policy are exceedingly
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1 limited, but the fact that they are there, they keep
2 informed and they know about these things and why they
3 are done, is very helpful in managing the banks, and
4 worthwhile from the point of view of their bringing
5 judgment to the bank as directors of big institutions
6 of that sort. They are particularly helpful in
7 giving an understanding and in understanding and
8 transmitting that understanding of the functioning
9 of the system throughout the country.



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1 We have a practice every year of -- the Board has --
2 of adding, in every one day or day and a half session,
3 all new directors that happen to be appointed. In
4 that particular year banks and branches may have
5 as many as 50 or 60 that enter, and sometimes they
6 are very prominent business men and bankers and
7 some of them who formerly worked for the Federal
8 Reserve System in one capacity or another, but they
9 come in and get an explanation of how we function
10 and why, and it is a very useful educational and
11 public relations device and also exceedingly helpful
12 in getting from them their informed judgment and
13 their opinions and the information they have on
14 what is going on and what the reaction of a country
15 is to what is going on.

16 We think this is very useful and we would
17 think that the universal feeling would be throughout
18 the system that it would be a great loss if the
19 regional system were ever abandoned. I am not
20 sure it could not be set up anew; you could make
21 a stronger case for it than was made at the time,
22 but it has worked very well and is very useful.

23 COMMISSIONER GIBSON: It is closely related
24 to the banks throughout the country?

25 MR. THOMAS: That is right; we have
26 closer contact with the individual banks and it
27 gives them a feeling of local participation.

28 COMMISSIONER HARROLD: You have some
29 comment to make on the Board of Governors from the
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1 and investment dealers.

2 MR. THOMAS: On the Board of Governors there
3 is a question as to whether they could be said to
4 represent any interest. Every member of the Board
5 considers himself as representing the broad public
6 interest and not representing any particular interest.
7 That is one point of view that we generally like to
8 encourage, that a member of the Board is not there
9 to look out for bank interests or business interests
10 or agricultural interests. There is also a great
11 deal of pressure from labour people to have a
12 labour man on the Board. We have members of the
13 Board who are informed about labour matters; the
14 vice-chairman was a professor of industrial manage-
15 ment in the University of Pennsylvania and he is
16 well informed on the subject. The hope is that they
17 can avoid having the feeling that any member has to
18 represent some particular interest.

19 COMMISSIONER HARROLD: You would not suggest
20 that it should be limited to the men with financial
21 experience?

22 MR. THOMAS: Well, sir, it is very helpful
23 to have the people with different types of experience.
24 There should be some member who has had banking ex-
25 perience and somebody who has had business experience.
26 We sometimes think there ought to be more economists
27 on the Board, but there are some advantages in having
28 people who have had diverse experience and let them
29 learn economics to the extent to which they need
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1 other Board members occasionally academic people
2 recommend that the Board ought to be made up entirely
3 of economists, but I think that would be unfortunate,
4 too!

5 COMMISSIONER HARROLD: In that the Board
6 of Governors are on a full time basis, after being
7 there a while they are not looked on as inside people,
8 but rather people with outside interests?

9 MR. THOMAS: Well, they maintain their
10 breadth of interests. They are very hard working
11 people. The Board meets every day unless there is
12 no occasion to meet and they work things out as a
13 team. They do not divide their responsibilities,
14 although in some matters, like bank supervision, there
15 may be one or two members of the Board who will be
16 relied upon more because of experience in that field,
17 but in general they all take responsibility for
18 everything. This means they all have to be pretty
19 well informed. They take their responsibility very
20 seriously.

21 COMMISSIONER HARROLD: In the operation
22 of the Open Market Committee as such, would you
23 say this was a combination of views, rather than
24 being a view by the Chairman as to what should be
25 done from day to day?

26 MR. THOMAS: Oh, decidedly, decidedly.
27 The Chairman has one vote and one voice. Of course,
28 the power of the chairman depends upon his powers
29 of convincing the other members, and if he is a very
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1 convincing person he can have quite a lot of power.
2 Sometimes other members have a great deal of power
3 just from the standpoint of the veto.

4 The Committee likes to have a broad
5 consensus and sometimes when there is a question
6 comes up on it there is no strong feeling and one
7 person has a very strong feeling against it, it
8 may hold the decision up for quite a while. That
9 is generally true more on procedural matters than
10 on broad policy, but it is true and there is a great
11 advantage in having many members participate in this
12 discussion. It is helpful from the standpoint of
13 the staff in that any special person who wants to
14 present a point of view can generally find some
15 member who will support it, and the board and the
16 committee in general do not object to differences
17 in points of view. We all feel quite free about
18 things; if we think you are making a mistake, we
19 say so.

20 COMMISSIONER GIBSON: Would it be all
21 right for the staff to speak to another member
22 of the board other than the Chairman?

23 MR. THOMAS: Oh yes.

24 COMMISSIONER GIBSON: And express a point
25 of view to this board that the chairman might not
26 agree with?

27 MR. THOMAS: Decidedly, decidedly, and
28 at a meeting of the Open Market Committee generally
29 each member makes up his own mind; the Board does not
30 get together and say, "We will state this particular

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1 point of view as a board.".

2 Sometimes individual members of the Board
3 will come into my office and they will go into the
4 offices of other members of the staff and say, "Now,
5 what do you think we should be doing on this
6 situation?" and if we have no views -- frequently
7 I have not made up my mind myself until about ten
8 o'clock the night before as to what I am going to
9 recommend, because I want to study the whole
10 situation pretty carefully before I make up my
11 mind, but you can express your views or questions
12 and you do not have to agree with what the other
13 board member says or thinks, and primarily he wants
14 you to speak when you do disagree because in this
15 way he can develop his own arguments. A member
16 is not of any value to the board if he cannot present
17 his own views.

18 COMMISSIONER GIBSON: Are the board
19 members in the majority of cases able to discuss
20 the technical matters of monetary policy in debt?

21 MR. THOMAS: Yes. Maybe not when they
22 first come in as board members, but they learn awfully
23 fast.

24 COMMISSIONER HARROLD: I gather at the
25 moment you have no firm convictions or recommendations
26 on changes that should be made in the present setup
27 of the Board of Governors and regional directors,
28 and so on?

29 MR. THOMAS: No, I am satisfied with it
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1 COMMISSIONER HARROLD: Has there been
2 discussion in Congress over pressures in Washington
3 within the last few years for changes in the present
4 setup?

5 MR. THOMAS: There has been a suggestion
6 that the Board be reduced to five members; suggestions
7 that -- I think the Commission on Money and Credit
8 suggested that the Open Market Committee be done
9 away with and that the Board take over those powers,
10 but I think that would be a mistake.

11 COMMISSIONER HARROLD: You mention that
12 in the regional areas there is some interchange in
13 personnel with the University faculties as such;
14 is that very extensive?

15 MR. THOMAS: Yes, it is quite extensive.
16 We have a hard time getting people away from universities
17 now that they are paying such big salaries! However,
18 we try to take advantage of the view that experience
19 with the Federal Reserve is a very valuable experience
20 for anyone who is going to be in the academic profession.
21 Sometimes we can attract them that way, and once
22 they come a lot of them -- a large number of them --
23 prefer to stay; they like it.

24 COMMISSIONER HARROLD: Would you regard
25 this exchange as an advantageous one?

26 MR. THOMAS: Decidedly, yes, and then
27 we have some groups of professors who come in and
28 engage in free interchange of views; argument and
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3 prejudices. If we cannot deal with those, then we
4 cannot be too sure of our own positions, so we try
5 to get differing points of view in our staff and get
6 free exchange of views among them.

7 THE CHAIRMAN: I would like to ask Mr.
8 Thomas a question with reference to paragraph 158.
9 It is stated there:

10 "The Board of Governors is essentially
11 a policy-making and supervisory body
12 and has virtually none of the operating
13 functions common to central banks.
14 The operating functions of the Federal
15 Reserve System are performed by the
16 Federal Reserve Banks."

17 I take it that means by the twelve banks.

18 MR. THOMAS: Yes.

19 THE CHAIRMAN: I would like to get a picture,
20 if possible, of just how that works in practice. Once
21 the Open Market Committee comes to a definite decision
22 as to policy, how is that transmitted through the
23 system and carried on?

24 MR. THOMAS: Well, the task of carrying
25 out open market operations is assigned to the Federal
26 Reserve Bank of New York, and there is a manager of
27 the Federal Open Market Account
28 who has always been a vice-president of the Federal
29 Reserve Bank in New York. Now, whether that is
30 necessary might be subject to question, but it has

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1 actually worked out in practice; that he always has
2 been. Of course, he has a certain amount of divided
3 functions there; as a vice-president in the Federal
4 Reserve Bank of New York, he may have other duties and
5 be answerable to the president of that bank, but as
6 manager of the Open Market Committee he is answerable
7 to the Committee. The president of his bank has always
8 been the vice-president of the Open Market Committee.

9 Now, they have a staff and an investment
10 department of the Federal Reserve Bank of New York,
11 which does the buying and selling of securities for
12 the Open Market Account; they also buy and sell
13 securities for the Treasury Account, for the foreign
14 central banks and to some extent for the member banks.

15 If the member banks want to do it
16 through the Federal Reserve bank rather than through
17 a dealer, the Federal Reserve Bank will do this for
18 them. It is not very widespread, and is generally for
19 small banks. Dealers do not care about handling the
20 small operations. All open market purchases and
21 sales are carried out through this department.

22 COMMISSIONER HARROLD: So that it is a
23 centralized operation?

24 MR. THOMAS: Yes, it is a centralized
25 operation for the whole System. At first, in the
26 early days of this System, each Federal Reserve Bank
27 used to buy and sell securities for its own account,
28 and the reason the Open Market Committee

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1 started was more or less an incidental discovery after
2 the First World War when banks paid off very large
3 borrowings that they had had at the Federal Reserve
4 Bank during the First World War, and it was financed
5 by the bank buying government securities and borrowing
6 from the Federal Reserve to pay for them, which
7 worked out to exert a considerable degree of restraint
8 and it was one reason for the very rapid liquidation
9 of credit that took place in 1921.

10 Then, after the discounts were paid off
11 the Reserve Banks thought they ought to keep their
12 money invested, so each one would go and buy govern-
13 ment securities and they found that they were all
14 operating in the market and having quite an effect
15 on the market, and it was decided to concentrate these
16 operations in one group, and they set up the Open Market
17 Committee for this purpose, not recognizing fully that
18 this also had an effect on the availability of reserves.
19 Then, when they noticed that they did have an effect
20 on the availability of reserves, they began to view
21 them as an instrument of policy and had some regu-
22 lation on it and that was generally run by the Federal
23 Reserve Bank of New York, and it was not until about
24 1933 that they formalized this Committee and made it
25 a body that functions for the whole system in a formal
26 sort of way, this open market operation.

27 Now, the discount policy or lending to
28 member banks directly, that operation is performed
29 entirely within each Federal Reserve Bank in its
30 relation to the member banks. The member has nothing



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1 to do with that except the approval of the discount
2 rate, which is generally fixed by the Board of Directors
3 of that Federal Reserve Bank, although the Board in
4 Washington does have the power to fix the discount
5 rate.

6 Actually, the discount rate is generally
7 discussed and there is an informal agreement on it
8 at some meeting of the Open Market Committee, and then
9 they go back and the rates are changed according to
10 the schedule of the meetings of the Boards of Directors
11 of the Reserve Banks, and generally there is uniformity
12 over a very short period of time.

13 COMMISSIONER HARROLD: I take it the rates
14 couldn't vary?

15 MR. THOMAS: They could vary.

16 COMMISSIONER HARROLD: But in practice
17 they probably do not?

18 MR. THOMAS: They could vary, and there
19 is room for argument as to whether they should. They
20 have at times varied. We had a period a few years
21 ago where two banks had rates of $3\frac{1}{2}$ per cent and all
22 the rest were at 3 per cent, but since most banks
23 regulate their reserve position through the treasury
24 bill market it does not serve much useful purpose for
25 them to vary. The banks through Federal funds finance
26 in the regions where they have these kinds of rules,
27 but since the rate from other banks is below the
28 discount rate, it is a question of whether it serves
29 the same purpose.

30 We conjecture from time to time as to whether

with that except the approval of the discount
of that Federal Reserve Bank, although the Board in
Washington does have the power to fix the discount
rate.

Actually, the discount rate is generally

discussed and there is an informal agreement on it
at some meeting of the Open Market Committee, and then
they go back and the rates are changed according to
the schedule of the meetings of the Board of Directors
of the Reserve Banks, and generally there is uniformity

COMMISSIONER HARKOBY: I take it the rates

couldn't vary?

MR. THOMAS: They could vary

COMMISSIONER HARKOBY: But in practice

they probably do not?

MR. THOMAS: They could vary, and there

is room for argument as to whether they should. They

have at times varied. We had a period a few years

ago where two banks had rates of $3\frac{1}{2}$ per cent and all

the rest were at 3 per cent, but since most banks

regulate their reserve position through the treasury

bill market it does not serve much useful purpose for

them to vary. The banks through Federal funds finance

in the regions where they have those kinds of rules,

but since the rate from other banks is below the

discount rate, it is a question of whether it serves

the same purpose.

We conjecture from time to time as to whether



1 an occasion might arise when there might be reason for
2 a difference, but nobody has yet found a very strong
3 argument for it. I think that the principle is
4 maintained that they can vary. On matters of
5 issuance of currency and cheques and so on; these
6 are just detailed operations that run almost
7 automatically and there is no policy involved except
8 the policy of how well prepared they are administratively.
9 Some banks still use over-time to clear cheques when
10 they get loaded up and others will not, or a few
11 little things of that sort; but there is room for
12 executive discretion in operating matters of that
13 sort.



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1 COMMISSIONER LEMAN: Mr. Thomas, I think you
2 have already explained to us that it was part of the
3 policy of the Federal Reserve system to try to make
4 sure when additional reserves are pumped into the system
5 you want those quickly and well scattered throughout
6 the whole system. The fact that all this starts
7 from open market -- I am not talking about the discount
8 window now where the reserves can go in according to
9 the wishes of each bank, but the additional reserves
10 created through open market operations. It is through
11 their own administrative ability and through the
12 functioning of the market that that takes place --
13 the scattering?

14 MR. THOMAS: The distribution?

15 COMMISSIONER LEMAN: Yes, the distribution.

16 MR. THOMAS: Frequently the distribution may
17 have taken place before the Act. After all, most of
18 the operations of government securities transacted
19 through the dealers have head offices in New York,
20 but they may represent purchases and sales made by
21 banks and others throughout the country, and the funds
22 may have already been transmitted out, and the pressure
23 comes at the centre after the distribution has already
24 taken place. But most operations, you see, are to take
25 care of varying pressures that take place in the market.
26 It is not often that you just pump money out and count
27 on it being distributed. The money goes out because
28 somebody wants it and needs it. The person who wants
29 it has been selling bills or withdrawing bankers'
30 balances, and the pressure comes into the market, or



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1 we know it is going to be there, and provision is
2 made for taking care of it before it takes place if
3 it is one of the normal seasonal movements. I don't
4 think there is any great difficulty.

5 We do notice, for instance in 1958, when
6 there was a series of reductions in reserve requirements,
7 which certainly released a lot of funds, the big city
8 banks put those funds to use very quickly and an
9 exceedingly sharp drop in bill rates occurred. Country
10 banks were slower in putting their funds to use, and they
11 came in more gradually. Eventually, it was all reflected
12 in the situation.

13 COMMISSIONER LEMAN: Has this ever been a
14 matter of discussion? Has there ever been any argument
15 that banks further away from the centre have somewhat
16 of a disadvantage by reason of that?

17 MR. THOMAS: There is always some argument;
18 somebody will raise that question, but I doubt if
19 there is any very substantial basis for it because
20 money is a very fluid thing, and the way our banking
21 system operates it gets scattered around very fast,
22 as I said, through our correspondent banking system
23 and other devices. Any bank that needs funds can get
24 them very fast. When redundant reserves are put out
25 they may be slower getting around. We have noticed
26 at times during the war and at times since when there
27 was a very large Treasury deficit, the Treasury will
28 tend to borrow its new funds from the city banks or in
29 the central markets, and there is likely to be more
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COMMISSIONER LEWIS: Has this ever been a matter of discussion? Has there ever been any argument that banks further away from the center have somewhat of a disadvantage by reason of that?

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1 of an outflow from, say, the New York or the central
2 money markets throughout the country as the money is
3 spent by the treasury out through the country. But it
4 is very difficult ever to actually find out exactly
5 what are the causes of regional flows. It is a very
6 interesting study. We are always having some professor
7 coming in and saying, "I would like to study the regional
8 flows of funds", and we say, "All right, here is a mass
9 of information", and they spend a year studying it
10 and end up with no conclusions. Basically, it is a
11 problem of trying to study the balance of payments
12 of a region without knowing what the imports and exports
13 are and other trade elements. All you know are the
14 financial elements.

15 COMMISSIONER BROWN: In connection with this
16 centralization of the marketing in New York, I assume
17 there are facilities within the system for the same
18 day transfer of securities?

19 MR. THOMAS: Yes. That is done through
20 a wire transfer system.

21 COMMISSIONER BROWN: Between the reserve
22 banks?

23 MR. THOMAS: And for all member banks.

24 THE CHAIRMAN: I am not quite clear just how
25 the bank in New York operates.

26 MR. THOMAS: On the system of market accounts,
27 you mean, and distribution as among the reserve banks?

28 THE CHAIRMAN: Yes.

29 MR. THOMAS: We have a formula for that and
30 the holdings in the account are
/ allocated every day on the basis of a formula.



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1 A certain proportion goes to each reserve bank.

2 THE CHAIRMAN: So that the Bank of New York
3 in New York sells certain securities and then those
4 are distributed -- the proceeds are distributed?

5 MR. THOMAS: Distributed through our district
6 clearing system -- what we used to call the gold
7 settlement fund, which is done by machine every night
8 in a few minutes.

9 THE CHAIRMAN: When the Bank of New York
10 buys securities, it has to draw money from the various
11 Reserve Banks to pay for it?

12 MR. THOMAS: That is right, yes. The formula
13 is, in essence, based on the proportion of total
14 assets held by each Reserve Bank, but there is an
15 adjustment process to take into consideration the
16 bank's reserve ratio. If one district happens to be
17 losing funds and its reserve ratio gets down close
18 to some minimum level that is agreed upon, its
19 participation in the account may be reduced until there
20 is an adjustment made in its reserve ratio.

21 THE CHAIRMAN: Well, the position of the
22 bank in New York is really that of an agent for the
23 system as a whole?

24 MR. THOMAS: That is right.

25 COMMISSIONER GIBSON: What does a governor
26 do in a typical day? He goes to a meeting of the Board?

27 MR. THOMAS: He reads memoranda and other
28 documents. Of course, he has a lot of people come to
29 see him. However, they have certain administrative
30 decisions to make about personnel and things of that
sort.



1 COMMISSIONER GIBSON: There is some division
2 of administration responsibility, is there?

3 MR. THOMAS: V^ery little. There is one
4 member of the board assigned the responsibility for
5 certain administrative decisions about personnel. Any
6 decision he makes, I guess, is cleared through the
7 board; they have a chance to look at it and raise
8 objection -- certain decisions about leave and trips
9 and things of that sort. He has the final authority
10 on many matters, but when it comes to a question of
11 employing a senior staff member, of course, the board
12 members all have a chance to look at that.

13 COMMISSIONER GIBSON: Essentially, they
14 have got a lot of home-work to do?

15 MR. THOMAS: A lot of home-work. The cor-
16 respondence is circulated among every board member. He
17 has a pile of stuff on his desk every day depending on
18 how much he wants to go into the background of a parti-
19 cular question. As the Board functions, at a meeting of
20 the Board they will have first a list of letters that
21 has been circulated and that every Board member has
22 initialled and they are formally approved at that
23 meeting. The Chairman will say "If there is no object-
24 ion it is approved." However, on occasion some Board
25 members may raise questions: Typical items are whether
26 this bank should have a branch somewhere, a letter to a
27 Congressman or a letter to somebody raising a question
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1 a group of items on which they will want Board dis-
2 cussion before they approve. Sometimes those things
3 are discussed at great length by the Board. Members
4 are supposed to have read all the underlying documents
5 before they come to the Board meeting.

6 COMMISSIONER GIBSON: Most of the same things
7 go over each governor's desk as go over the chairman's
8 desk?

9 MR. THOMAS: Yes.

10 COMMISSIONER GIBSON: So they have basically
11 all the same information?

12 MR. THOMAS: That is right.

13 COMMISSIONER GIBSON: Do they do much
14 travelling and explaining of policies to the bankers
15 in the local reserve banks?

16 MR. THOMAS: Yes, quite a lot. They attend
17 meetings of the boards of directors of Reserve Banks.
18 They attend bankers' association meetings and various
19 meetings. Some board member is always making a speech
20 somewhere or other. That is the advantage of having
21 seven board members, that you can always get a quorum
22 and still have an opportunity for the others to get
23 around the country. They also do a certain amount of
24 travelling abroad: It is done now with the monthly
25 meetings of the Banks for International Settlements,
26 there is nearly always a representative of the Federal
27 Reserve bank in New York -- a senior officer -- and
28 more often than not now either some staff member or
29 some board member will attend various of the meetings.
30 When they do that they also visit other central



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1 banks.

2 COMMISSIONER GIBSON: The senior staff
3 don't really have a boss in the board of governors?

4 MR. THOMAS: No.

5 COMMISSIONER GIBSON: They report to the
6 governors?

7 MR. THOMAS: Formally the chairman is
8 responsible for the senior staff -- yes, the senior
9 staff report to all the governors.

10 COMMISSIONER BROWN: Directly? There is no
11 secretary?

12 MR. THOMAS: There is a secretary, but he
13 is a member of the senior staff too. We don't consider
14 the secretary has any powers over any other division
15 except purely the routing of material and seeing that
16 the job gets done; but material is assigned to a
17 division, and a division head is responsible for that.

18 COMMISSIONER GIBSON: How do you make sure
19 that the various governors of the system make reasonably
20 similar pronouncements on monetary values? In other
21 words, do the staff prepare their speeches?

22 MR. THOMAS: The speeches are generally pretty
23 carefully gone over. We have one official who is
24 assistant to the board who is our press relations man,
25 and generally all speeches delivered are read by him
26 beforehand. Basically, in the final analysis it is
27 up to the individual responsibility of the board member.

28 THE CHAIRMAN: If the public relations man
29 disapproves of a portion of his speech, he is not bound
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THE CHAIRMAN: Is the public relations man

disapproves of a portion of his speech, he is not bound

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1 MR. THOMAS: No.. Also as to the Federal
2 Reserve Banks, any publications that the Federal Reserve
3 banks make, it used to be they had to be approved by
4 the Board, 15 or so years ago -- regular publications
5 were generally seen and approved by the board. The
6 speeches of the president of the Reserve bank were
7 commonly not, unless he wanted to clear it. The
8 present arrangement is that they are expected to send
9 in everything they publish so they can be reviewed
10 by the Board staff. The reviewers call attention to
11 anything they think might be inadvisable or inpolitic
12 or wrong, and frequently they will check data. But
13 then, after calling the matter to the Reserve Bank's
14 attention, it is the responsibility of the president
15 of the Reserve bank to decide what they want to do about
16 it. Most of them welcome this review because it does
17 safeguard them against making a mistake which they may
18 be unaware of or getting the advantage of information
19 which may be available at the board but they don't have.
20 However, it is a review and co-ordination, not censorship.

21 COMMISSIONER BROWN: You mentioned that
22 correspondence is circulated before the governors,
23 but there is no circulation of speeches prior to the
24 delivery.

25 MR. THOMAS: If they want to, but most
26 governors would just as soon be relieved of the
27 responsibility of reading somebody else's speech.
28 However, sometimes they do. They will say, "I wish
29 you would look this over and see what you think about
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1 can say or should not say at the time. They have been
2 there long enough. They know what would be advisable
3 to say, what would be discreet, and if they have
4 any questions about it they will raise them.

5 COMMISSIONER BROWN: I notice in your paper
6 the appointed term is 14 years for the governor, and
7 at the same time there have been 10 new appointments
8 in the last 10 years. Is there a retirement age,
9 or what has caused these vacancies?

10 MR. THOMAS: No retirement age, but some
11 resignations, and deaths. In a period of 10 years you
12 would normally have five vacancies, and there have been
13 some re-appointments. If a man is appointed to fill
14 out an unexpired term he can be re-appointed to fill
15 out an unexpired term he can be re-appointed for another
16 full 14-year term. We had one board member who was
17 there 26 years under the 14-year rule. He was
18 originally appointed for a 12-year term, and then a
19 14-year term. It happened he had also served before
20 the law was changed, for four years. So, altogether
21 he served nearly 30 years.

22 COMMISSIONER BROWN: Are there any retirement
23 ages for directors of the other Federal Reserve banks?

24 MR. THOMAS: The staff?

25 COMMISSIONER BROWN: The staff.

26 MR. THOMAS: Well, for the staff of the
27 Federal Reserve banks -- the retirement age is 65, but
28 the president may finish out his term if he wants to:
29 Some do and some don't. Some stay a few years after
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1 COMMISSIONER BROWN: Theoretically he could
2 be appointed to the Board of Governors?

3 MR. THOMAS: Theoretically he could be, yes.
4 There is no age limit on the Board of Governors except
5 at the discretion of the President of the United States
6 who appoints the members of the Board of Governors.

7 COMMISSIONER BROWN: Latterly he seems to
8 have been going, more than formerly, to people who
9 have previous experience within the system?

10 MR. THOMAS: I think a little bit --
11 directors maybe, but not necessarily officers.

12 COMMISSIONER LEMAN: In a slightly different
13 field, are there institutions in the United States,
14 as there are in Canada, that have what we call
15 chequable deposits, although the non-banking
16 institutions in Canada that have them have to deny
17 what is drawn is a cheque, because it is a legal problem?

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1 Nevertheless they have these demand orders drawn on
2 them. Are there such things in the States?

3 MR. THOMAS: I think no. I think it would
4 be illegal.

5 COMMISSIONER LEMAN: You believe it would
6 be illegal in the States. Nevertheless, has there ever
7 been discussions or suggestions in the States that
8 the Federal Reserve banks should operate a clearing
9 system?

10 MR. THOMAS: The Federal Reserve banks do
11 operate a clearing system for cheques. Member banks
12 deposit their cheques and they are cleared through
13 the Federal Reserve system. Cheques on local banks
14 are generally not deposited at the Federal Reserve bank.
15 The clearing house clears this, and the Federal Reserve
16 is one of the members of the clearing house for cheques
17 on local banks which can be cleared immediately. How-
18 ever, cheques on out-of-town banks can be deposited
19 in the Federal Reserve bank. Generally most of them
20 operate on a 24-hour basis. Their transit department.
21 I started my career in the Federal Reserve system
22 in the transit department of a Federal Reserve bank
23 in Philadelphia working from one at night until nine in
24 the morning. Most of them do have these departments
25 that work on a 24-hour basis. Maybe all of them do.
26 There are some large correspondent banks which prefer
27 what we call direct sending and do not clear through
28 the Reserve Banks. They would operate their own clear-
29 ing system and send directly out to the banks. They
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1 COMMISSIONER LEMAN: It is not a matter
2 of law, but a matter of convenience?

3 MR. THOMAS: Yes. All Federal Reserve banks
4 are prohibited by law from paying exchange on any cheque
5 that is deposited with them. If a cheque is deposited
6 with them and they present it to the bank for collection
7 the Federal Reserve Banks cannot pay exchange for
8 cashing that cheque. There are some non-member banks
9 which charge exchange. Those cheques cannot be cleared
10 through the Federal Reserve system.

11 COMMISSIONER LEMAN: So is this a free
12 service to the banks by the Federal Reserve system?

13 MR. THOMAS: Yes, there is no charge. In
14 fact, that is the whole principle of it, namely,
15 cheques represent an important part of the monetary
16 system of the country and should be done with a minimum
17 of cost to the public.

18 COMMISSIONER LEMAN: But offsetting it is
19 the lack of immediate credit to the customer?

20 MR. THOMAS: There is a schedule on credit
21 in respect of cheques that are deposited in the Reserve
22 Banks. The Federal Reserve will give immediate credit
23 for anything that is within the immediate community, or
24 rather one-day credit. A deposit one day will be
25 credited the next day unless there is a special
26 arrangement for immediate credit, for instance, if
27 they are dealing in federal funds. They give one-day
28 credit on items that are within the one-day range of
29 the Reserve Bank and two-day credit on some other
30 items, and three-day on some others. We used to have

COMMISSIONER LEMAN: It is not a matter

of law, but a matter of convenience?

MR. THOMAS: Yes. All Federal Reserve banks

that is deposited with them. If a cheque is deposited

with them and they present it to the bank for collection

the Federal Reserve Bank cannot pay exchange for

cashing that cheque. There are some non-member banks

which charge exchange. Those cheques cannot be cleared

through the Federal Reserve system.

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1 it as long as seven days on some, but with aeroplanes
2 they can now be cleared more quickly.

3 They are all not cleared within that time,
4 and that builds up what we call a Federal Reserve float,
5 where a bank actually receives credit for a cheque
6 it has deposited before the Federal Reserve banks
7 get paid for that cheque. It is a widely fluctuating
8 item but it is an item that we take into consideration
9 when figuring the availability of reserves and adjusting
10 our open market operations accordingly.

11 COMMISSIONER LEMAN: Well, now, in a slightly
12 different phase of the subject, your paper explains
13 in respect of mergers and various ventures that the
14 banks might want to get into, that member banks are
15 subject to the approval of your Federal Reserve.

16 MR. THOMAS: I stated that. I do not think
17 I explained it.

18 COMMISSIONER LEMAN: You stated it here.

19 MR. THOMAS: Yes. That would be another
20 very big paper if I tried to explain all of it. It
21 is a very involved legal problem.

22 COMMISSIONER LEMAN: I wanted to ask you
23 a rather general question about this idea. In the
24 United States a lot of banks perform trust functions
25 at the same time, whereas up here in Canada that is
26 a separate operation. Outside of the strict banking
27 system are there any other restrictions on banks
28 in the States in respect to owning other types of
29 institutions, or taking a major interest in them and
30 that sort of thing?



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in the States in respect to owning other types of institutions, or taking a major interest in them and sort of things?



1 MR. THOMAS: Oh, there are very strict
2 regulations about bank affiliates as developed in
3 the Bank Act of 1933. Banks are exceedingly restricted
4 in the extent to which they can own other institutions,
5 particularly financial institutions. That all grew
6 out of a great many problems that developed in the
7 1920's when banks had security affiliates. Those are
8 now prohibited. Banks can have no interest in another
9 financial institution.

10 Now, the way the laws are drawn and the
11 legal technicalities I do not feel qualified to discuss,
12 but one of the things that does take a lot of the
13 Board's time is in regulating some of these insti-
14 tutional relationships. Some of them are absolutely
15 prohibited but some are permitted under certain
16 conditions. They are pretty restrictive.

17 COMMISSIONER LEMAN: Are these restrictions
18 embodied in legislation outside of the main Federal
19 Reserve Act? Is there all kinds of other legislation
20 that has been introduced?

21 MR. THOMAS: Some of them are amendments
22 to the Federal Reserve Act. Some of them are amendments
23 to the Federal Deposits Insurance Corporation Act;
24 some of them are amendments to the Securities and
25 Exchange Act.

26 COMMISSIONER LEMAN: But more than one of
27 them has remained of interest in this matter?

28 MR. THOMAS: Oh, yes, there are over-lapping
29 jurisdictions. I have here the Federal Reserve Act,
30 and it has an appendix containing provisions of the

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MR. THOMAS: Oh, yes, there are overlapping



1 other statutes.

2 COMMISSIONER LEMAN: I think a general
3 statement would suffice, Mr. Thomas. We have access
4 to those documents.

5 MR. THOMAS: There are a great many other
6 statutes here; the Bank Holding Company Act and
7 various others.

8 COMMISSIONER LEMAN: But you feel that it is
9 proper to say that the general conclusion is that
10 all this compendium of laws tends to restrict banks
11 strictly to the banking field?

12 MR. THOMAS: That is right.

13 COMMISSIONER HARROLD: Perhaps I could
14 ask one question. Do you have a clear definition of
15 what a bank is in the United States?

16 MR. THOMAS: Yes, I think so now. I think
17 it is an institution that accepts deposits. I don't
18 know whether this involves accepting them for chequing
19 purposes, or whether it includes savings deposits.
20 I do not think there was a clear definition until
21 1933 but I believe there is now. It used to be that
22 brokers and dealers in securities had deposit accounts
23 on which one could draw cheques. They still have a
24 certain amount of / ^{customers'} deposit accounts they call
25 free credit balances, but they are supposed to arise
26 entirely out of the business of buying and selling
27 securities.



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1 THE CHAIRMAN: That is a statutory
2 definition?

3 MR. THOMAS: A statutory definition, I
4 think.

5 COMMISSIONER GIBSON: Mr. Chairman, Mr.
6 Thomas has made some very interesting comments about
7 the international payment system and some of the
8 problems associated with it. I take it from your
9 remarks that you feel that there is enough inter-
10 national liquidity if we use it better; enough inter-
11 national reserves if we can manage to use them more
12 effectively?

13 MR. THOMAS: I think there are adequate
14 facilities for the making available any international
15 reserves that might be needed. I think there may
16 be need, and no doubt is need, for more changes
17 in the arrangements for doing that, and some changes
18 in the practices, maybe at some time in the future.
19 For instance, we still have to complete arrangements to
20 increase the facilities of the International Monetary
21 Fund for this purpose. I think it could be said that
22 there is need for a considerable amount of international
23 liquidity, and particularly as the convertibility of
24 currency increases. As the international money
25 market becomes broader and more integrated there is
26 likely to be more movement of funds around the world,
27 just as in our own situation we have movements of funds
28 from one region to another.

29 I remember my father, who was a country
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I remember my father, who was a country banker, talking about the time when he would have



1 to pay exchange on Detroit, Chicago, Minneapolis or St.
2 Louis, or some other districts. When the Federal
3 Reserve system was organized to provide facilities for
4 clearing these movements through the banking system,
5 the needs for differences in exchange rates disappeared.
6 Maybe we are moving toward that sort of a system
7 throughout the world where there will be movement
8 of funds from one money market to another in response
9 to changes in interest rates, as well as in response
10 to the other basic factors which effect the balance
11 of payments. We have to recognize the need for a
12 larger volume of international monetary transactions
13 which will require a certain amount of liquidity.
14 Again, that can be worked out by arrangement within
15 the financial structure between central banks and
16 between private banks. To some extent we ought
17 to be able to clear these without too much strain
18 on the economy, provided we can get assurances of
19 currency stability.

20 The risk of a change in the value of the
21 currency creates uncertainties and can cause move-
22 ments which are based upon no necessary need for
23 the shifting of funds or even a reflection of
24 interest rate differentials, but are done merely
25 from fear or expectation that some rate of exchange
26 might be varied.

27 That is very important, of course, in
28 the case of so-called reserve currencies like the
29 United States dollar and the pound sterling that are
30



1 used for international purposes. It may be that
2 there will be other currencies that will be used for
3 that purpose; Swiss francs to some limited
4 extent from the standpoint of volume, but a relatively
5 large extent from the standpoint of receiving funds.
6 It is very important that these currencies always
7 be maintained, or at least that there be assurances
8 that their value will be maintained and not changed,
9 otherwise our whole mechanism of international payments
10 will break down, and we will have to go through a
11 long period of exceeding difficulty.

12 I think the extent to which we can get
13 that assurance, liquidity needs would be less than
14 they would be in a situation where there could not
15 be such assurances.

16 COMMISSIONER GIBSON: You have made one
17 statement to the effect that no standard will work
18 in the long run unless all the major central banks
19 agree to forego once and for all in favour of keeping
20 all their reserves in the form of gold. Do you
21 think there is enough gold around?

22 MR. THOMAS: There is not enough gold to go
23 around if everybody wants to keep all their reserves
24 in the form of gold just as there would not be enough
25 gold in the United States if we permitted every member
26 bank to hold all its reserves in the form of gold.
27 There is not enough gold to perform the monetary
28 functions of the world if every individual could hold
29 gold at any time he wanted it.

30 Gold serves a very important function as a



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1 type of international money. If it could be limited
2 to that use I think there is plenty of gold, but
3 that still means central banks would probably find
4 it necessary to maintain a certain amount of balance
5 with each other, so that some of these adjustments
6 could be made without the necessity of changing the
7 ownership of gold. Just as in the United States,
8 most of our inter-bank transactions are made through
9 inter-bank balances. Your transactions are made
10 within your branch banking system, but if every time
11 you had a shift of funds from one region to another
12 you had to have a movement of gold there would not
13 be enough gold for that purpose. We can, by improving
14 the efficiency of our clearing mechanism, I am sure,
15 operate with what gold we have and the gold that may
16 be provided through increased production in the course
17 of time.

18 COMMISSIONER GIBSON: I understand that
19 you do not think much of the idea of raising the
20 price of gold in order to provide more international
21 liquidity?

22 MR. THOMAS: No, I have more confidence
23 in the ability of central banks to create more money
24 without doing it by that device.

25 Our problem does not involve the ability
26 to create money, but to create it in the way that
27 it moves to the right places at the right time.
28 Changing the price of gold only benefits those that
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1 South Africans. Most of the benefits go to those
2 that already have a lot of gold and do not help those
3 that do not have any. So, there are other ways
4 of providing international liquidity, and providing
5 also for its redistribution which are far more equitable
6 than by changing the price of gold. The very risk
7 of changing the price of gold is something that
8 discourages more efficient use of gold as an inter-
9 national reserve mechanism, because it encourages
10 people to hoard gold in private supplies and remove
11 it from the international reserve stock in order
12 to take advantage of the possibility that the price
13 of gold might be raised. There are only a few
14 occasions in history where the price of gold has
15 been lowered, one being the occasion when the Germans
16 and the Dutch did it last year. Generally the
17 expectation is that ^{gold} / will rise in price.

18 COMMISSIONER GIBSON: It happened once
19 in Canada.

20 MR. THOMAS: Yes, I guess maybe it did.

21 COMMISSIONER LEMAN: Well, that is a long
22 term view, Mr. Thomas; as the functioning of markets
23 and facilities for moving funds across international
24 borders is developed and made smoother and easier, as
25 you have just described it.



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1 Do you see some day the need or the possibility of
2 some kind of a super-body that would exercise the type
3 of monetary control, world-wide, as there is in each
4 country and to effect the general liquidity all over
5 the whole system instead of just in one particular
6 country?

7 MR. THOMAS: There may be, but
8 there are a lot of things that have to be done before
9 that; there is the question of sovereignty to tax
10 systems and you have to move a long way in that
11 direction on international uniformity of practice before
12 we can count on a universal monetary system, but I think
13 we are moving in that direction. It may be it will
14 never be necessary to have an over-all institution
15 or lender of last resort. It might be desirable
16 at some time, but I should say it is at least a decade
17 away.

18 COMMISSIONER GIBSON: Do you think flexible
19 exchange rates are an appropriate instrument of policy,
20 monetary policy, in some countries? I am not asking
21 this question in relation to the United States, but
22 we have such a policy here in Canada.

23 MR. THOMAS: No, I don't like flexible
24 exchange rates, as a personal view. I think it is much
25 better to have the adjustments that are necessary to
26 be made through the individual prices and costs
27 rather than through trying to change the whole structure
28 of your price level, including things that may not need
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1 uncertainties and they make necessary adjustments
2 that would be unnecessary otherwise. If they possibly
3 can be avoided they should be. This is not saying
4 at times certain countries have to change their ex-
5 change rates when they get far out of line, but even
6 this I think could be avoided if they followed the
7 right policies first. Generally changes in exchange
8 rates are necessary because they have been following
9 the wrong policies before that, and that should be
10 avoided.

11 COMMISSIONER MACKINTOSH: Might it be that
12 some of the major reserve countries have been following
13 policies that make life difficult for the others?

14 MR. THOMAS: Yes, they may be.

15 COMMISSIONER BROWN: Do you care to comment
16 on the extent to which fixed exchange rates prevent
17 certain flexibilities in monetary policy?

18 MR. THOMAS: I don't think they prevent
19 flexibilities in monetary policy, no. I don't know
20 why there should be varying exchange rates between one
21 country and another any more than there should be
22 between New York and San Francisco say.

23 COMMISSIONER BROWN: I think it has been said
24 here in Canada that we have great difficulty at times
25 in maintaining a rate that might have been appropriate
26 a little earlier, because of the terrific size of
27 capital flows between here and the United States, and
28 this is a rather unusual situation.

29 MR. THOMAS: Yes. I would prefer to see
30 these adjustments made through the interest rate

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1 structure, but I am not sure it is feasible.

2 You see, you have a policy in Canada of,
3 in effect, sterilizing foreign exchange movements so
4 they don't affect your interest rate structure, in
5 that all the foreign exchange that comes in is bought
6 by the Exchange Equalization Account and the funds are
7 held abroad, so they don't enter into your monetary
8 stream. This is balanced out by public debt
9 operations.

10 Now, we do it differently in that the gold
11 that comes in is bought by the Treasury and is im-
12 mediately converted into money by transferring gold
13 certificate credits to the Federal Treasury in effect
14 creating the money to buy the gold with, and that enters
15 into our supply of member bank reserves. Whether the
16 Federal Reserve offsets the effect of that by selling
17 securities in the market is a matter of policy. If it
18 is offset by Federal selling or buying of securities
19 rather than by treasury selling or buying of securities,
20 it can end with exactly the same effect, but it doesn't
21 necessarily do it. It becomes more a monetary policy
22 decision.

23 COMMISSIONER MACKINTOSH: Only the marginal
24 power for exchange purchases and sales affects the
25 exchange fund?

26 MR. THOMAS: That is right, but it is the
27 margin I am talking about.

28 COMMISSIONER MACKINTOSH: It doesn't even
29 follow that -- well, with a fixed rate I suppose they
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1 MR. THOMAS: Yes.

2 COMMISSIONER MACKINTOSH: Unless it is
3 offset by the market?

4 MR. THOMAS: That is right.

5 COMMISSIONER MACKINTOSH: Would you suggest
6 it would be better to allow these movements to have
7 their full and immediate effect?

8 MR. THOMAS: No, I think you have to relate
9 it to the monetary requirements of the domestic
10 economy and with due regard to the international
11 situation, but there are times when it might be advisable
12 to permit them to have the effect in order to avoid
13 undue influence. It could be done through the interest
14 rate structure.

15 COMMISSIONER BROWN: I am not quite sure
16 how this will operate when you have large flows of
17 capital in that are not affected by the interest rate
18 structure but where they are for investment in equity
19 or ownership in real estate.

20 MR. THOMAS: Of course, according to the
21 old gold standard rules when capital comes in it
22 is supposed to enter into the banking and monetary
23 system and affect domestic interest rates or stimulate
24 domestic buying activity and affect domestic prices and
25 you get the adjustment.

26 Now, internationally, through relative changes
27 in interest rates and prices. Back in the 1920's the
28 United States was accused of sterilizing all the gold
29 that came into the country and making it more
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system and affect domestic interest rates or stimulate

domestic buying activity and affect domestic prices and

you get the adjustment.

MR. THOMAS: Yes, that is the adjustment.

In interest rates and prices. Back in the 1920's the

United States was accused of sterilizing all the gold

that came into the country and making it more



1 difficult for the British to adjust their situation.
2 We did, in effect, restrict our domestic credit ex-
3 pansion more than would have been possible if we had
4 not restricted it, but this is again a question of what
5 is the advisable policy at the time in relation to the
6 international situation as well as the domestic situation.
7 I think that these issues are going to have to be faced
8 a little more from now on now that we have a system of
9 convertible currencies and have some confidence in
10 currencies. There are more movements of funds to take
11 advantage of interest rate and price differentials. If
12 you offset the effect of these you prevent the auto-
13 matic adjustments from being made that would correct
14 the movements.

15 COMMISSIONER GIBSON: Mr. Chairman, if there
16 are no more questions along this line, I wonder if
17 Mr. Thomas might make one other brief statement. He
18 has told us during this very interesting discussion
19 quite a little about the report of the Monetary
20 Commission in the United States in relation to a number
21 of recommendations.

22 Now, I wonder if he would care to say a
23 word or two on what he thinks of the other well known
24 report that has come out in the last few years, that
25 of the Radcliffe Committee on Great Britain, from the
26 standpoint of the American monetary system?

27 MR. THOMAS: It is of course difficult to
28 relate the report that is made on the basis of ex-
29 perience in one country to the situation in another
30 country, but perhaps one of the significant aspects of
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MR. THOMAS: It is of course difficult to

relate the report that is made on the basis of experience in one country to the situation in another country, but perhaps one of the significant aspects of



1 report and the report of our Commission on Money
2 and Credit, or the actual operating procedures that
3 are used in the United States, is to bring out to some
4 extent the differences that exist between those
5 countries.

6 I have some notes here where I have given
7 some thought to this at one time in the future. The
8 Radcliffe report had the result of stimulating discussion
9 on monetary policy and mechanisms and effects in
10 academic circles, among market practitioners and among
11 policy-makers in both the United Kingdom and the
12 United States and elsewhere.

13 This report is related primarily to British
14 practices, but since then we have had the Commission
15 on Money and Credit study in the United States and
16 its report, which gives an opportunity to compare
17 or contrast the American practice and views.

18 Also, the recent financial developments in
19 the United States throw a light on how these procedures
20 and theories have actually worked out under varying
21 conditions.

22 The Radcliffe Committee's principal policy
23 views, in effect, seem to -- and I would emphasize
24 "seem to" because this is my interpretation and I am
25 not trying to speak on anybody else's behalf, particularly
26 not for the members of the Commission -- they seem
27 to reject the control of cash reserves of banks as
28 a means of regulating the money supply.

29 Now, this rejection is based in part on
30 doubt as to the efficacy of such control, but also



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1 it is based on the actual practice of the Bank of
2 England of always buying treasury bills at a price --
3 if they do that -- that prevents the control of cash
4 reserves.

5 The second point is that the report seems
6 to minimize the influence of money supply on interest
7 rates and on spending, and emphasizes general liquidity
8 as the principal monetary influence on aggregate
9 spending and on the maintenance of economic growth
10 and stability. But, because of the wide range of
11 financial institutions that supply credit in Great
12 Britain, the difficulties of controlling general
13 liquidity creates problems which the report recognizes
14 but I am not sure provides any answer to.

15 The report rejects the Bank of England
16 control of short-term interest rates as an effective
17 means of regulating the economy through monetary
18 measures. You see, they have rejected the control
19 of cash reserves as a means, because the Bank of
20 England will buy bills at some rate and then they
21 turn around and also reject the control of the economy
22 or the money system through the variations in the
23 interest rates.

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1 The report recognizes that relatively large
2 changes in the level and particularly in the structure
3 of interest rates may have an effect on spending,
4 and it indicates that the authorities should have
5 a positive policy towards interest rates, but they
6 again are not too clear as to how this should be
7 done. They furthermore seem to believe that the
8 effects of any interest rate policy are slow
9 or that wide fluctuations would be harmful, so we
10 must leave it in the air as to what is the means
11 of control that they would use.

12 They do place great emphasis or reliance
13 on debt management and fiscal policy as a means
14 of influencing general liquidity and the structure
15 of interest rates and they also give some support
16 to the use of direct or selective controls on particular
17 lending activities of financial institutions, but at
18 the same time recognize the difficulties and dis-
19 advantages of such / ^{an approach} and it would be used only
20 as a last resort.

21 In effect, it seems to me that the Radcliffe
22 Committee's recommendations leave the function of
23 monetary policy consideration uncertain and provides
24 no guides or standards as to how those policies
25 should be conducted.

26 The U.S. monetary policy in contrast, has
27 set forth in the Federal Reserve board's submission
28 to the Commission on money and credit -- which has
29 not yet been published and which I have used extensively
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1 extent in the C.M.C. report, and assigns a more positive
2 and definite -- though still limited -- role to monetary
3 policy

4 First, they place primary emphasis on
5 the control of cash reserves of banks and the
6 resulting regulation of the money supply. These
7 are the particular magnitudes that the Federal Reserves
8 can fairly effectively control.

9 Secondly, they recognize the importance
10 of other liquid assets and non-bank financial
11 institutions in supplying liquidity and credit, but
12 point out that these facilities need not unduly hamper
13 the effectiveness of monetary policy. Regulation
14 of the money supply can influence total liquidity
15 and, moreover, monetary regulation can, should be
16 and has been adjusted to take into consideration
17 changes in general liquidity and in the activities
18 of non-bank financial institutions.

19 Third, as to interest rates, interest
20 rates are affected, directly and indirectly, by
21 monetary policy actions, and have an influence on
22 the economic decisions. Interest rates, however,
23 are also influenced by the various other decisions
24 beyond the control of monetary policies, and in the
25 longer run are likely to be determined by such
26 decisions. It is essential for a proper functioning
27 market economy that interest rates be permitted to
28 fluctuate both as to level and structure. Market
29 fluctuations in interest rates reflect the impact
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Toronto, Ontario

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January 1941
New York

1941

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Fourth, public debt management also has an influence on the structure of interest rates -- and fiscal policy on the level of rates -- but under existing allocation of powers in the United States these are not the responsibility of the Federal Reserve. They must be taken as given in the determination of monetary policies and monetary actions must be adjusted accordingly so as to support the broad objectives of monetary policy and not the transitory problems of debt management -- except for very brief periods.

These differences in approach in the conduct of monetary regulation are illustrated by the developments in the United States in the last two or three years.

1959 is illustrative of a period in which aggregate credit demands were tremendous including a record federal budget deficit and in which most of these demands were met from non-bank lending sources.

The amount of credit supply was large while the capacity for expanding output was restricted by the steel strike.

Monetary policy was successfully directed toward restraining bank credit and monetary expansion.

Interest rates rose sharply, thus helping to bring in funds from non-bank lenders.

Commodity prices were remarkably stable.

The developments of this period do not represent a failure of monetary policy to deal with a situation characterized by a great deal of non-bank lending, but rather the success of monetary policy in



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1 dealing with such a situation.

2 The restrictive policy no doubt prevented
3 development of an inflationary trend and thus the
4 avoidance of a serious subsequent collapse.

5 Whether the policy continued too restrictive
6 too long may be debatable, but any such judgment
7 would be based on hindsight rather than on the facts
8 available at the time.

9 1961, to take another period, illustrates a
10 situation of easy money policy along with economic
11 recovery from recession which occurred with little
12 monetary expansion as narrowly defined to include ex-
13 pansion of demand deposits and currency -- but with a
14 very marked expansion in liquid assets.

15 Reserves were fairly generously supplied
16 to banks and total bank credit expanded at a pace that
17 was stimulative for the economy.

18 An increase occurred in time deposits at
19 commercial banks as well as in other types of fixed-
20 value redeemable claims in financial institutions.

21 Debt management and the fiscal situation
22 added to the public debt and particularly to short-term
23 securities.

24 These additions were reflected in bank, rather
25 than in non-bank holdings.

26 In 1961 the banks bought short-term government
27 securities, thereby supplying funds to the public. The
28 banks had the available reserves for increasing their
29 holdings of government securities. The public didn't buy
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1 Interest rates were low, relatively speaking.

2 A possible explanation of this combination
3 of events lies in moderate degree of the interest rate
4 decline -- much less than in other recession periods.

5 It is partly a result of the policy in holding up
6 or refraining from reducing short-term rates in order
7 not to encourage a flow of funds abroad and the loss
8 of gold reserves. There was in this period a positive
9 policy toward interest rates, to use the words of the
10 Radcliffe Commission.

11 The view that short rates could be kept up
12 and long rates lowered which was held in some circles
13 proved to be unworkable.

14 Other factors keeping interest rates up
15 were the moderate nature of the recession that had
16 occurred, and the maintenance of borrowing demands,
17 particularly long-term, at fairly high levels.

18 Again, though, the money supply did not
19 increase as much as might have been considered
20 desirable although the monetary policy cannot be
21 said to have fallen down.

22 General liquidity increased and credit was
23 freely available. Actually, the total increase in
24 all types of credit in 1961 was about \$50 billion --
25 more than in any other year except 1958. Bank credit
26 increased about \$16 billion which was only a little
27 less than it was in 1958. This increase was about 7
28 per cent, which was roughly commensurate with the
29 increase in Gross National Product which was about
30 8 per cent.

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per cent, which was roughly commensurate with the increase in Gross National Product which was about 8 per cent.



1 Recovery advanced in 1961 about as fast
2 as could be expected and a vulnerable bond market
3 was avoided in contrast to the year 1958.

4 Looking briefly at 1962, the same credit
5 trends that characterized 1961 have continued with
6 even more striking increase in time deposits at banks
7 which has been stimulated by the increase in interest
8 rates paid by banks.

9 There has been some, though still moderate,
10 increase in demand deposits and currency. In both
11 years there has been an increase in demand deposit
12 turn-over.

13 In 1962 we might say the economic activity
14 increase has been slower than desired, but the slowness
15 evidently cannot be attributed to the lack of credit
16 availability. Other factors of a structural nature
17 must be the cause of this slow rate of economic
18 expansion and the continued slack in the economy.

19 Mr. Chairman, that more or less summarizes
20 the position that I have tried to present to this
21 Commission in my appearance before you.

22 THE CHAIRMAN: Mr. Thomas, I wish to thank
23 you very much indeed for not only the brief you have
24 presented but for the most comprehensive discussion
25 in which we became involved in the last two days.
26 It has been invaluable to us in our deliberations and
27 we are very greatly indebted to you for your contribution
28 to the work of this Commission.

29 We wish to thank you and also the board
30 of governors of the Federal Reserve system for helping



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1 to make your appearance possible.

2 MR. THOMAS: Mr. Chairman, it has been a
3 great privilege to me to be able to end my career in
4 central banking by appearing here to present the views
5 from my experience and the philosophy that I have
6 developed as well as to endeavour to present the general
7 views and principles that govern the Federal Reserve
8 system in its operations.

9 THE CHAIRMAN: This session will now adjourn
10 and the Commission will meet on Monday, September 10th,
11 in Ottawa at 9:15 a.m. when we shall hear the submission
12 of Lord Cobbold, formerly the Governor of the Bank of
13 England.

14 ---ADJOURNMENT.
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September 10th
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IN SENATE

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Royal Commission on Banking and Finance

WOODLIEF THOMAS

Hearings
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Vol.

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Date.

JULY 19 1962



Official Reporters
F. J. Pethercut and R. J. Young
Toronto, Ont.



OPERATION OF THE MONETARY SYSTEM
IN THE U.S.A.

Memorandum Submitted at the Request of the
Royal Commission on Banking and Finance
Ottawa, Canada

by

Woodlief Thomas, Adviser to the
Board of Governors of the Federal Reserve System
Washington, D.C., U.S.A.

May, 1962



OPERATION OF THE MONETARY SYSTEM IN THE U.S.A.

SUMMARY

Monetary and credit institutions and practices in the United States differ from those in Canada in a number of significant respects. The more fundamental of these differences fall into two broad categories; (a) structural features that cannot easily be changed, and (b) procedures that have become well established but might be altered. Many of the variations in operating practices as between the two countries stem from these more or less ingrained differences. Others are the result of differences in situations that arise or in judgment.

Structural features - Principal differences of a basic structural nature are:

(1) In contrast to the Canadian system of a few large banks with widespread branches, operating mostly under a single jurisdiction, the banking system in the United States consist of thousands of individual banks, operating under separate laws -- State and Federal; supervised by separate and overlapping authorities; and with branches either prohibited or confined to limited areas. An important result of these differences in the United States is to increase the over-all liquidity needs of the banks with frequent demands for Reserve Bank credit, and to promote the existence of an active short-term money market to allow for shifts of funds among banks.

(2) The organization and procedures of the



central banks differ. The Federal Reserve System is a complex structure of 12 separate Federal Reserve Banks and a Board of Governors in Washington, with a Federal Open Market Committee consisting of members of the Board and five representatives of the Federal Reserve Banks. Although authority for policy decisions is divided among these bodies, most policies are formulated on the basis of joint participation and discussion at the frequent meetings of the Federal Open Market Committee. This gives the benefit of wisdom and knowledge of many informed and responsible people.

(3) In its relationship to the current governmental administration, the Federal Reserve System has a recognized status of independence. This is partly the result of the constitutional structure of government in the United States with division of powers between Congress and the President. Congress has allocated the administration of the monetary power to the Federal Reserve. This independence of the Federal Reserve System within Government may also be said to reflect the view, which underlies the establishment of separate central banks in most countries, that authority to regulate the creation of money has to be safeguarded against abuse either by Government or by private enterprise, though not completely divorced from influence by either.

Procedural differences - Principal differences between well established procedures in the monetary and credit systems of Canada and the United States are:

Administration of reserve requirements for



1 commercial banks is more complex and perhaps more rigidly
2 enforced in the United States. There are different
3 requirements for demand and time deposits and for demand
4 deposits in two classes of banks. These differences are
5 due in part to historical developments, but they also
6 reflect the basic principle that the various categories
7 of deposits have differing degrees of money quality.

8 Because individual member banks find somewhat
9 more occasion to borrow at the Reserve Banks, the act
10 of borrowing and the discount rates charged have more
11 impact and probably greater significance in the United
12 States than in Canada.

13 In the United States, banks are prohibited from
14 paying interest on demand deposits, and maxima are
15 imposed by regulation on rates that may be paid on time
16 deposits. These maxima vary according to term of the
17 deposit and are changed from time to time. These
18 restrictions were imposed initially to safeguard banks
19 against unsound competitive practices and to reduce the
20 attraction of funds to financial centers. They also
21 have some impact on the allocation and perhaps the
22 volume of saving.

23 Although the Federal Reserve Banks serve as
24 fiscal agents for the Treasury in holding balances
25 and in executing transactions involved in management
26 of the public debt, as well as in other fiscal operations,
27 it appears that the Bank of Canada is more active and
28 exercises a higher degree of responsibility for
29 decisions in public debt management than do the Federal
30 Reserve Banks.



commercial banks is more complex and perhaps more rigidly enforced in the United States. There are different requirements for demand and time deposits and for general deposits in the United States. In fact, the requirements are more rigid in the United States than in Canada.

In the United States, banks are prohibited from paying interest on demand deposits, and maxima are imposed by regulation on rates that may be paid on time deposits. These maxima vary according to term of the deposit and are changed from time to time. These restrictions were imposed initially to safeguard banks against unsound competitive practices and to remove the attraction of funds to financial institutions. They also have some impact on the allocation and perhaps the volume of saving.

Although the Federal Reserve Bank serves as fiscal agent for the Treasury in holding balances and in executing transactions involved in management of the public debt, as well as in other types of operations, it appears that the Bank of Canada is more active and exercises a higher degree of responsibility for decisions in public debt management than do the Federal Reserve Bank.



1 Another significant difference in debt
2 management procedures is found in the use of so-called
3 tax and loan accounts at commercial banks as an
4 effective means of underwriting Treasury issues of new
5 securities. This process removes or reduces the
6 necessity for using Reserve Bank credit in these operations
7 in a way that might conflict with current monetary policy.

8 Monetary policies in Canada and the United
9 States may also be differently influenced by the
10 positions with respect to international movements of
11 funds. These arise from differences in factors
12 affecting the balance of payments and also from the
13 status of the U.S. dollar as an international reserve
14 currency.

15 Objectives of monetary policy - Broad
16 objectives of monetary policy are generally identical
17 in nearly every country. They are to assure availability
18 of sufficient bank credit and money for sustained
19 economic growth and development; to maintain stability
20 in the general level of prices; and to protect inter-
21 national convertibility of the currency. It is also an
22 aim of Federal Reserve policy in achieving these
23 objectives to maintain the operation of free markets
24 in a free enterprise system.

25 Processes and procedures through which policy
26 is executed are necessarily more specific than these
27 broad goals but can never be dissociated from them.
28 Procedures used in one country differ in many respects
29 from those followed in other countries. In summarizing
30 a comprehensive answer recently submitted to questions



1 by the Commission on Money and Credit, the Board of
2 Governors described the focus of Federal Reserve
3 operations, as follows:

4 "Federal Reserve policies, directed toward
5 the broad ultimate objectives of fostering price
6 stability, high level employment, and sustained
7 economic growth, are determined by the policy-
8 making authorities of the System on the basis of
9 a great many considerations. They are put into
10 effect operationally through control over bank
11 reserves. It is principally through the channel
12 of bank reserves that Federal Reserve policies
13 influence the volume of bank credit, the money
14 supply, and interest rates."

15 Instruments of Federal Reserve policy --

16 Principal instruments employed by the Federal Reserve
17 to influence the availability of bank reserves
18 include the following:

19 (1) Discounts (member bank borrowing) at
20 the Reserve Banks make reserves available at the
21 initiative of the banks, but in a manner that exerts
22 restraint on credit expansion, because of a well-
23 established tradition against borrowing. The degree of
24 restraint may be varied by alterations in discount rates
25 and to some extent by Reserve Bank administration of the
26 discount facility.

27 (2) Open market operations, which are
28 conducted at the initiative of the Federal Reserve Open
29 Market Committee, affect the availability of reserves for
30 banks in general. These operations comprise the bulk of



1 Federal Reserve credit activities, but most transactions
2 are engaged in for the purpose of offsetting large
3 seasonal and other temporary fluctuations in various
4 other factors, such as currency and gold movements and
5 float, that affect the supply of reserves.

6 (3) Changes in reserve requirements of
7 member banks, which may be made within specific limits
8 by action of the Board of Governors, can affect the
9 availability of reserves without changing the
10 existing supply. This instrument is not suitable for use
11 in delicate adjustments of reserve availability and is
12 employed generally only for making major alterations of
13 a longer-term nature.

14 Except for control of stock market credit,
15 which for historical reasons had come to occupy an
16 excessively unstabilizing role in the U.S. credit
17 structure, the Federal Reserve has made little use of
18 attempts to regulate specific types of credit by
19 selective controls or by methods of persuasion. Such
20 measures not only have the disadvantage of interfering
21 with free market processes but also are difficult to
22 apply in the United States with its large number of
23 banks and other credit institutions.

24 Guides to and effectiveness of Federal
25 Reserve actions - Particular considerations that
26 influence the determination of Federal Reserve policies
27 and actions and the developments that measure the
28 effectiveness of such actions are numerous and broad.
29 The primary guide is the reserve position of banks.
30 The various considerations that are kept in mind have



1 been summarized by the Board in its answers to the
2 Commission on Money and Credit as follows:

3 "In determining the volume of operations
4 needed at any time in order to provide reserves
5 adequate for changes in bank credit and the money
6 supply that would best contribute to the broad
7 objectives of policy, allowance must be made
8 for seasonal and other temporary variations in
9 factors that affect the supply of or demand for
10 reserves. In dollar amounts these temporary
11 variations are much greater than cyclical or
12 growth needs.

13 "Decision as to the appropriate amount of
14 bank credit and money at any time is made in the
15 light of a great number of variables: supply and
16 demand conditions in markets for goods and
17 services, and volume of employment and production
18 relative to available resources, movement of the
19 general level of prices, the general liquidity
20 of the economy, the availability of credit from
21 nonbank sources, the strength of prevailing
22 credit demands, and the rate at which the
23 existing money supply is being used. It must be
24 recognized that bank credit supplies only a
25 relatively small portion of the total credit needs
26 of the economy, but the maintenance of this
27 portion at an appropriate amount is of considerable
28 marginal importance in helping to make possible
29 sustainable economic growth.
30



1 "Movements of interest rates are determined
2 by the interaction of borrowing demands of all
3 kinds upon the available supply of lendable funds.
4 Bank credit is only a portion of this supply.
5 Federal Reserve policies and operations do not aim
6 at long-term control of the level or structure
7 of interest rates. Normally the free interplay of
8 supply and demand forces on the course of interest
9 rates enables such rates to perform essential
10 allocative functions. Interest rate changes are
11 an essential part of the mechanism through which
12 monetary policies ultimately influence the
13 decisions of borrowers and lenders. They serve
14 as a significant indicator of market developments
15 that are relevant to the determination of such
16 policies."

17 Formulation and execution of monetary policy
18 is a continuous process. Continuing review and
19 appraisal of economic and financial developments is a
20 prime essential. Specific actions by the Federal
21 Reserve affect the supply of bank reserves and through
22 them the availability of bank credit and the supply
23 of money. The impact of Federal Reserve policies
24 upon the greater volume of credit that is obtained
25 from nonbank sources, upon the general liquidity of the
26 economy, and upon the level and the structure of interest
27 rates is indirect and often quite remote. Developments
28 in all of these areas, however, are taken into con-
29 sideration in formulating Federal Reserve policy
30 decisions.



Federal Reserve authorities also are constantly aware and are alert to point out that monetary policy should not and cannot be relied upon to assure the maintenance of an appropriate level of aggregate demand or of any particular element of consumption or investment, except to the extent that adjustment in available cash balances can contribute to such an objective. Aggregate demand and economic equilibrium depend more largely on productivity, on the structure of prices and costs, on the distribution of incomes, and on various other incentives, than on variations in the quantity of money. Monetary policies cannot be expected to prevent or correct imbalances that might result from structural imperfections or from mistakes of judgment by business or individuals or by Government. Attempts, in the face of any such situation, to assure continuous stimulation of the economy through bank credit expansion might incur the risk of speculative or other unsustainable developments that would create rather than prevent instability and unemployment.

International considerations in monetary policy

During most of the existence of the Federal Reserve System, contribution to the maintenance of balance in the international payments of the United States and assurance of convertibility of the dollar at a fixed relationship to gold have not been important considerations in the determination of monetary policy. Generally, gold movements were of concern only to the extent that Federal Reserve operations were needed to offset their effect on member bank reserves.



1 In recent years, however, persistent deficits
2 in the balance of payments, resulting in drains on the
3 gold stock and continuing through a period of recession
4 in domestic economic activity while activity in other
5 leading countries remained at a high level, has made
6 it necessary to frame monetary policy in a manner that
7 would not encourage further losses of gold reserves.
8 At the same time, because of slack in the U.S. economy,
9 it has been desirable to assure adequate bank reserves
10 to void credit restraint and to promote expansion.
11 This unusual conjuncture of forces has presented a
12 difficult dilemma, especially since some of the principal
13 underlying causes of the payments deficit could not be
14 remedied by monetary policies.

15 Adjustment in the exchange value of the
16 U.S. dollar is not considered to be a usable means for
17 dealing with this type of problem. In the first place,
18 many of the adjustments needed can be most effectively
19 made through demand, supply, and price changes in
20 particular markets. Attempts to change the general
21 price level relative to others would create other
22 problems of a far-reaching nature. Moreover, because
23 of the role of the U.S. dollar as a key international
24 reserve currency, it is a basic tenet of U.S. monetary
25 administration that the value of the dollar be maintained
26 at a fixed relationship to gold. Any possibility of a
27 change in that relationship would threaten large outflows
28 of funds and loss of gold. In the long run it would
29 destroy an essential means of providing international
30 liquidity.



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identity.



1 In order to assure adequate international
2 reserve liquidity to meet the varying needs of world
3 commerce and finance, it is essential that confidence
4 be maintained in the stability of key reserve currencies.
5 Various proposals for alternative standards or ways of
6 providing the world with additional reserves would not
7 dispose of serious economic and financial problems that
8 underlie recurrent balance of payments difficulties.
9 These will have to be solved by more direct means or
10 through the gradual operation of market processes in
11 particular sectors. Moreover, these proposals do not
12 provide a solution for serious problems in ensuring
13 wide acceptability of some new reserve medium. No
14 standard will work unless major central banks are
15 willing to forego keeping all their reserves in gold.

16 Organization and personnel of the Federal
17 Reserve System. Organization of the Federal Reserve
18 System consists of the Board of Governors in Washington
19 and the 12 regional Federal Reserve Banks and their
20 24 branches, which together regulate certain activities
21 of some 6,100 privately owned commercial banks, with
22 a view to regulating the availability of bank credit
23 and of cash balances needed for sustained growth in
24 the economy. This type of organization represents a
25 unique regional concept among the central banks of the
26 world.

27 The Federal Reserve Board comprises seven
28 members, appointed by the President and confirmed by the
29 Senate, who serve for overlapping terms of 14 years. The
30 law provides for "fair representation of the financial,



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The Federal Reserve Board composition

members, appointed by the President and confirmed by the
Senate, who serve for overlapping terms of six years. The
The President for "fair representation of the financial



1 agricultural, industrial, and commercial interests
2 and geographic divisions of the country." The Chairman
3 of the Board, selected from the members, is appointed
4 by the President for a four-year term. In selecting
5 men for appointment to the Board, the President has,
6 on some occasions, sought recommendations from the
7 Chairman of the Board and on others has acted on
8 recommendations from other sources. The Board members
9 have been a diverse group, but of appointments made since
10 1950 a record of some prior service with the Federal
11 Reserve System -- as a director or officer of a
12 Federal Reserve Bank -- has been an important consideration.

13 The Board's primary responsibilities (as
14 already discussed) include the formulation of appropriate
15 credit and monetary policies to carry out the basic
16 function of the Federal Reserve System. Many of those
17 policies are formulated in cooperation with the Federal
18 Open Market Committee and the Federal Reserve Banks.
19 Its supervisory responsibilities with respect to the
20 Federal Reserve Banks include: approval of the President
21 and First Vice President of each Reserve Bank; review
22 of their annual budgets, including approval of salaries
23 for all officers and employees and of certain other
24 major expenditures; an annual examination to assure
25 compliance with applicable provisions of law and
26 regulation; and coordination of economic research and
27 review of System publications. The Board also directs
28 activities of the System in the examination and super-
29 vision of its member banks.

30 Within the framework of the Federal Government,



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Within the framework of the Federal Reserve



1 the Board represents the System in its relations with
2 executive departments and with Congress. It exercises
3 special supervision over the international operations
4 of the Reserve Banks and is represented on the intra-
5 governmental National Advisory Council on International
6 Monetary and Financial Problems.

7 At the end of 1961 the Federal Reserve System
8 had 6,113 member banks. Of these, 4,513 were national
9 banks, for whom membership is mandatory, and 1,600
10 were State-chartered banks that had voluntarily joined
11 the System. Less than one-half of all commercial banks
12 in the United States belong, but these hold 85 per
13 cent of the total deposits.

14 Decentralization is an important characteristic
15 of the Federal Reserve System. Each of the 12 Reserve
16 Banks operates under the general direction of a board
17 of nine directors, who serve three-year terms and who
18 are primarily responsible for the conduct of the banks'
19 affairs, subject to the supervision of the Federal
20 Reserve Board. In a preferential balloting by size of
21 bank, three bankers and three nonbankers are elected to
22 directorships by the member banks in each District. The
23 remaining three are appointed by the Board of Governors
24 and, of these, one is designated as Chairman and another
25 as Deputy Chairman. Those selected for appointment are
26 among the civic, business, professional and educational
27 leaders of the Districts. No director may hold public
28 office of a political nature. The boards of directors
29 select the full-time officers of the Reserve Banks and
30 by far the majority of their top officers are career men

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1 The directors provide experienced judgment on operational
2 problems, as well as a grass-roots view of economic
3 conditions, and also serve to disseminate better
4 understanding of Federal Reserve policies and actions.

5 The general reputation and the nonpartisan
6 public character of the Federal Reserve System have been
7 key elements in the recruitment and retention of
8 career personnel. Coordinated efforts of the Reserve
9 Banks and the Board have been directed toward maintaining
10 close contact with colleges and universities throughout
11 the country to facilitate the recruitment of professional
12 personnel, particularly economists.

13 Comprehensive development and training programs
14 on both an individual and group basis have been fostered
15 throughout the System. Individual training assignments have
16 included attendance at various institutes, seminars, and
17 workshops; visits to Reserve Banks and commercial banks;
18 academic work in connection with graduate degrees; and
19 participation in privately financed fellowship programs.
20 The transfer of personnel within the System also provides
21 opportunities for individual staff training. Group
22 programs for development and training have covered a
23 wide variety of subject matter with special emphasis on
24 economic problems, bank examination, automation, and the
25 use of the electronic computers.



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OPERATION OF THE MONETARY SYSTEM IN THE U.S.A.

1. In viewing monetary and credit arrangements and practices in the United States from the standpoint of possible alterations in the Canadian financial system, it is essential to keep in mind significant differences between the two systems. This memorandum begins, therefore, with a discussion of some of the more important of these differences. The remainder of the memorandum discusses the objectives, guides, procedures, and organization of the Federal Reserve System and its relationship to the Government and to other credit institutions, with little or no reference to the situation in Canada.*

*This memorandum draws primarily upon two other discussions of the United States monetary system:

(1) Answers by the Board of Governors to questions presented to it by the Commission on Money and Credit in its recent inquiry of the American monetary system. These answers, which were prepared in late 1960, are expected to be published in the near future. (2) Memorandum of Evidence submitted by Mr. Winfield Riefner, then Assistant to the Chairman of the Board of Governors of the Federal Reserve System, and also the oral evidence presented in June 1958 by Mr. Riefner to the British Committee on the Working of the Monetary System. Other statements submitted by the Board of Governors to Congressional committees, as well as a variety of published studies and reports, also provide background

1. The Canadian monetary and credit system

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1 material for some of the statements. In some cases
2 sections have been taken completely or with little
3 alteration, and without reference, from these various
4 documents. The personal judgments of the writer, based
5 upon years of experience with and study of the operation
6 of the monetary system in the United States and to a
7 limited extent systems in other countries, must be held
8 responsible for some of the views expressed. In
9 preparing the section on international considerations,
10 valuable aid was received from Mr. Arthur B. Hersey,
11 Adviser in the Board's Division of International
12 Finance. The section on organization and executive per-
13 sonnel of the System was prepared by Mr. Clarke L.
14 Fauver, Assistant to the Board.

15
16 I. Differences Between Financial Systems

17 2. Aside from differences of magnitude due to
18 population size and volume of national product and
19 diversities in industrial composition as between the
20 United States and Canada, there are two types of more
21 or less inherent or otherwise well-established
22 differences between the financial systems of the two
23 countries: (1) Basic structural features that are
24 inherent for traditional, constitutional, or long-
25 established legislative reasons, which would be difficult
26 if not impossible to alter in either country; and
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I. Differences Between Financial Systems

2. Aside from differences of magnitude due to population size and volume of national product and diversities in industrial composition as between the United States and Canada, there are two types of more or less inherent or otherwise well-established differences between the financial systems of the two countries: (1) Basic structural features that are inherent for traditional, constitutional, or long-established legislative reasons, which would be difficult if not impossible to alter in either country; and (2) well-established procedures and practices, resulting from legislation or custom, that might be altered through new legislation, regulation, or evolutionary process.

Basic Structural Differences in Monetary Systems

3. Principal basic differences of a structural nature, which cannot be easily changed, if at all, significantly influencing the operation of the monetary systems and of monetary policies in the two countries fall into three groups:

4. Banking structure. -- Perhaps the most important is that, in contrast to the Canadian banking structure of a few very large banks with widespread branch systems, the banking structure in the United States consists of nearly 14,000 local banks, operating under a diversity of laws and supervisory authorities. In many States branch offices are not permitted; in others branches are confined to the locality of the head office; and in no case can a bank have operating branches in more than one State.

5. This structural difference is significant from the standpoint of the conduct of monetary policy for a number of reasons. Probably the most important is the effect on the reserve positions of individual banks resulting from clearances among banks, which are much larger in amount with numerous local banks than in the case of a few large, diversified branch bank systems. These adjustments necessitate more frequent resort to Reserve Bank credit and also a greater need for liquidity. These liquidity needs, together with earlier laws as to bank reserve requirements, have led to the maintenance of a substantial volume of interbank balances, which in turn are highly volatile and require the maintenance of liquid positions by the banks in which

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earlier laws as to bank reserve requirements, have led to
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balances, which in turn are highly volatile and modify



1 these balances are deposited.

2 6. All of these liquidity demands depend upon
3 and contribute to the maintenance of a large and
4 active market for demand of short-term money. It is
5 reasonable to conclude, therefore, that the money market,
6 narrowly defined as a market where funds can be readily
7 raised or put to use at some rate of interest for
8 short periods, is necessarily much broader and more
9 pervasive in its influence in the United States than
10 in Canada.

11 7. Another significant aspect of this complex
12 and diverse banking structure relates to the allocation
13 of responsibility for bank chartering and supervision.
14 This authority resides in the 50 state governments and
15 in three Federal agencies, with a great deal of over-
16 lapping. Duplication is avoided or lessened by
17 informal cooperative arrangements. Although the
18 Federal Reserve, which is responsible for monetary
19 policies, has supervisory powers over member banks
20 that are greater than those possessed by the Bank of
21 Canada, the System's authority is shared with that of
22 other agencies and does not cover nonmember banks,
23 except in a few matters.

24 8. The other two Federal agencies are the
25 Comptroller of the Currency, connected with the Treasury
26 Department, responsible for the chartering and super-
27 vision of national banks, and the Federal Deposit
28 Insurance Corporation, which insures the deposits of
29 all national banks, State bank members of the Federal
30 Reserve System, and such other State-chartered banks as

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voluntarily become member of the Corporation. There are about 4,500 national banks holding about 55 per cent of the resources of all commercial banks, about 1,600 State bank members of the Federal Reserve System, with about 30 per cent of total banking resources. Nonmember banks number about 7,300, of which all but about 300 are insured.^{1/}

9. Central bank organization. -- The second basic structural difference relates to the respective organizations of the central or reserve banks and the processes of monetary policy formulation. Whereas in Canada there is one central bank, largely operated by its principal officers under general direction of a part-time board of directors, the Federal Reserve Banks, with limited authority to determine monetary policies, and a full-time Board of Governors in Washington with considerable ultimate authority.^{2/}

^{1/} A brief discussion of bank supervisory functions of the Federal Reserve in relation to those of other bank regulatory agencies may be found in Chapter VIII of "The Federal Reserve System -- Purposes and Functions", published by the Board of Governors, February 1961.

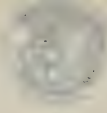
^{2/} More detailed description of the organization of the System is given in Part VI of this memorandum.



1 10. Most important policy decisions are
2 formulated by the Federal Open Market Committee, which
3 is composed of the seven Governors and five Reserve
4 Bank Presidents, four of whom serve on a rotation system
5 for one year at a time. Practically all policy
6 decisions are either determined or discussed at
7 meetings of the Open Market Committee, which are
8 generally held every three weeks and are attended also
9 by Presidents of the Reserve Banks not then serving
10 on the Open Market Committee.

11 11. This apparently complex and cumbersome
12 structure gives the benefit of the wisdom and knowledge
13 of many informed and responsible people and brings
14 many points of view from all sections of the country
15 into the formulation of monetary policy. Although the
16 processes of decision-making are necessarily somewhat
17 more involved than is the case in a single institution
18 with a titular head in whom most authority is centered,
19 the Federal Reserve structure helps to safeguard against the
20 dominance of any single viewpoint in reaching decisions
21 upon matters so important and at times so far-reaching
22 in their effects as monetary policies. At the same
23 time, with the aid of airplanes and telephones, the
24 benefit of frequent discussions, and continuous inter-
25 change of information, decisions can be reached as
26 expeditiously as may be necessary under particular
27 circumstances.

28 12. Relation of central bank to the Government --
29 The third basic structural difference between Canadian
30 and U.S. practices rests in the constitutional relationship



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to their effects on monetary policy. At the same
time, with the aid of technical and statistical
benefit of independent statistical and economic
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circumstances.

12. Relation of central bank to government
The third basic structural difference between the
and U.S. practices results in the constitutional



1 between the central bank and the general governmental
2 administration. It would be presumptuous and beyond
3 my knowledge for me to attempt to describe the
4 relationship between the Bank of Canada and the
5 Government. From the standpoint of contrast with the
6 United States, a most significant aspect is that
7 Canada has a parliamentary system of government where-
8 in the executive is answerable directly to Parliament.

9 13. The United States Constitution, by
10 contrast, separates the powers of the executive,
11 controlled by the President, and the legislative,
12 represented by the Congress. The Congress in turn
13 has delegated some of its powers to a number of so-
14 called independent agencies. The power to regulate
15 money, construed to be a particular responsibility
16 of the Congress, has been largely delegated to the
17 Federal Reserve System. In many respects the Federal
18 Reserve is probably more removed from Presidential
19 authority than other independent agencies. It is
20 also administratively removed from the budgetary
21 control of Congressional appropriations.

22 14. The Board of Governors and the System
23 generally are always subject to the will of Congress
24 as may be expressed in legislative enactments and
25 operate under the surveillance of Congressional
26 committees. It should also be noted that
27 coordination with economic policies of other branches
28 of the Government is constantly maintained through
29 exchanges of information and through consultation --
30



1 regularly and frequently with the Treasury, often with
2 the President's Council of Economic Advisers, and at
3 times with the President. The broad objectives of
4 governmental economic policies, set forth in the
5 Employment Act of 1946, are considered to apply to
6 Federal Reserve policies.

7 15. Reason for the relative independence
8 of the Federal Reserve System within the governmental
9 structure is more fundamental than the constitutional
10 form of government. Even under parliamentary govern-
11 ments, authority to regulate the creation of money
12 is generally delegated to a separate institution and
13 is surrounded by safeguards against abuse either by
14 government or by private enterprise, though not
15 completely divorced from influence by either. In
16 a free enterprise market economy, private credit
17 institutions and practices inevitably serve monetary
18 functions. These institutions and practices need
19 to be regulated by legislative or regulatory devices
20 but they cannot be wholly eliminated or replaced by
21 governmental operations. Moreover, history has
22 shown that governments, which are potentially, if
23 not actually, substantial borrowers, are under
24 constant temptation to create money in excess of the
25 cash needs of the economy.

26 16. In answer to questions by a committee of
27 Congress, the Board traced the constitutional and
28 historical basis for the authority assigned
29
30



1 to it. 3/ In that answer, it stated:

2 ".....the Board of Governors and the Federal
3 Open Market Committee has been established
4 by Congress to exercise important and unique
5 functions of Government -- generally described
6 as reserve banking functions -- which relate
7 to the regulation in the public interest of the
8 volume, availability, and cost of money; and,
9 recognizing the need for independence of judgment
10 in the exercise of these functions, Congress
11 has indicated its intent that the Board and the
12 Committee shall act according to their own best
13 judgment and discretion, subject always to the
14 limitations and policy directives prescribed by
15 the law.

16 "Credit and monetary functions, like the
17 functions of the judiciary, depend for their
18 effective performance upon impartial and objective
19 judgment.

20 "The country cannot prosper without a sound
21 basic economy and sound credit conditions. To
22 maintain such conditions, it is essential that
23 money --- the 'medium of exchange' by which goods

24 3/ Monetary Policy and the Management of the Public
25 Debt, Joint Committee on the Economic Report, 82d
26 Congress, 2d Session, 1952. Part 1, pp. 242-248.
27 See also Hearings, Statement by Lucius Wilmerding, Jr.,
28 pp. 752-754; and the Report of the Subcommittee,
29 pp. 49-53.
30



Toronto, Ontario

1 " and services change hands -- must adequately and
2 flexibly serve its purpose in a complex economy.
3 To this end, some Government agency must be given
4 the responsibility, under appropriate Congressional
5 authority, for influencing the volume and
6 availability of money in the public interest; and
7 it is this responsibility which is vested in
8 reserve banking authorities. ...

9 "Because money so vitally affects all
10 people in all walks of life as well as the
11 financing of the Government, the task of credit
12 and monetary management has unique characteristics.
13 Policy decisions of an agency performing this
14 task are often the subject of controversy and
15 frequently of a restrictive nature; consequently,
16 they are often unpopular, at least temporarily,
17 with some groups. The general public in a
18 democracy, however, is more apt to accept or
19 tolerate restrictive monetary and credit policies
20 if they are decided by public officials who, like
21 the members of the judiciary, are removed from
22 immediate pressures.

23 "There is a long-established tradition
24 both in this country and in other democracies
25 that the proper exercise of reserve banking
26 functions requires that it be insulated against
27 private or public pressures whose immediate
28 interests may not coincide with the best long-
29 run interests of the country."
30



Toronto, Ontario

1 17. In its final report, the subcommittee
2 conducting this inquiry, in a discussion of the question
3 of the independence of the Federal Reserve System
4 with respect to the President, concluded that "the
5 Board is formally independent in the exercise of its
6 judgment and can make such decisions as it believes
7 to be in the public interest." The Committee
8 added, however:

9 "But, the formal independence of the
10 Board of Governors from the President is
11 inevitably limited by the hard fact that
12 fiscal and monetary policy must be coordinated
13 with each other and with the other policies and
14 objectives of the Government if the Government
15 is to be of the greatest service to the Nation."

16 18. The unique status of the Federal
17 Reserve System -- with its diffusion of authority
18 in decision-making, the 14-year staggered terms of
19 members of the Board of Governors, the establishment
20 of regional Federal Reserve Banks, participation of
21 Reserve Bank Presidents and Reserve Bank boards of
22 directors in decision-making, and exemption of the
23 System from governmental budgetary control -- are
24 designed to safeguard its decisions against undue
25 control by either private interest or public power.

26 19. It is nevertheless clear that the
27 Federal Reserve System is governmental, not private.
28 The Congress delegated to the various Federal Reserve
29 bodies authority to exercise the principal monetary
30 powers of Government. They are expected to be



1 independent from control by the President and to be
2 protected from partisan political influence, as well
3 as from control by private interests. At the same
4 time, they must take into consideration the aims
5 and interests of all of these elements. The Federal
6 Reserve as a whole is truly a public body vested with
7 responsibility for administering the monetary system.

8 Differences in Established Procedures

9 20. In addition to the basic structural
10 differences in the monetary systems of Canada and the
11 United States, there have evolved from the experiences
12 of the two countries a number of differences in pro-
13 cedures and practices in the conduct of monetary
14 operations and policies that are significant in a
15 comparative analysis of the two. Some of these might
16 be subject to alteration in the course of time
17 either through the process of volitional change in
18 practices or by specific action with a view to
19 improvement in instruments or techniques.

20 21. Reserve requirements of commercial
21 banks. Administration of reserve requirements for
22 commercial banks is more complex and probably somewhat
23 more rigidly enforced in the United States than in
24 Canada. Under the Federal Reserve System, member
25 banks are required to maintain reserves either in the
26 form of cash on hand or of balances with Federal
27 Reserve Banks, but the amounts required vary as between
28 time and demand deposits and also with respect to
29 demand deposits as between two (until 1959, three)
30



1 classes of banks.

2 22. The basis for these differences in
3 reserve requirements is largely historical, stemming from
4 the pre-Federal Reserve period when national banks
5 and also most State-chartered banks held large parts
6 of their reserves on deposit with correspondent banks, which
7 in turn were required to hold larger proportions of
8 cash reserves. Reserves of banks not members of
9 the Federal Reserve System are mostly still required by
10 State laws to be held in cash or on deposit with banks
11 of a designated nature.

12 23. These differences in reserve require-
13 ments may also be said to be based upon a significant
14 principle of monetary theory. They represent fundamental
15 variations in the money quality of the different types
16 of deposits. Demand deposits, which are used as a
17 medium of exchange as well as a store of value, clearly
18 have more impact upon the economy than time deposits.
19 Broadly speaking, demand deposits at reserve city
20 banks are much more actively used for transactions
21 than are those at other banks. Thus, from the
22 standpoint either of general monetary regulation or
23 of distributing the burden of reserve requirements
24 among individual banks, differentials in reserve
25 requirements by types of deposits may be said to have
26 a rational economic basis.

27 24. Computations of reserve requirements
28 for member banks of the Federal Reserve System are
29 based on weekly averages of daily figures for reserve
30 city banks and on bi-weekly averages for other banks



23. The Reserve Ratio Requirements

Various requirements are laid down in the Federal Reserve Act, and the Federal Reserve Board has issued regulations and interpretations of these requirements. In turn, the Federal Reserve Board has required that banks not members of the Federal Reserve System and banks still required by State laws to be held in cash or on deposit with banks of a designated nature.

24. These differences in reserve requirements

may also be said to be based upon a number of principles of monetary theory. They represent fundamental variations in the money quantity of the different types of deposits. Demand deposits, which are held as a medium of exchange as well as a store of value, clearly have more impact upon the economy than time deposits. Broadly speaking, demand deposits at reserve city banks are much more actively used for transactions than are those at other banks. Thus, from the standpoint either of general monetary regulation or of distributing the burden of reserve requirements among individual banks, differentials in reserve requirements by types of deposits may be said to have a rational economic basis.

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1 (commonly called country banks). Reports are sub-
2 mitted promptly by member banks to the Reserve Banks
3 as to their reserve requirements and their holdings
4 of coin and currency, which together with deposit
5 balances at the Reserve Banks, are counted as re-
6 serves to cover requirements. Penalties are
7 imposed for reserve deficiencies, which are
8 relatively rare.

9 25. Many, perhaps most, large banks
10 compute their reserve positions daily and, although
11 they may be deficient on some days, they carefully
12 watch their cumulative positions for the elapsed
13 portion of the reserve week. As an aid in administration
14 of monetary policy, a number of the largest banks
15 in each district are requested to submit to the
16 Reserve Banks daily reports of their reserve positions.

17 26. In Federal Reserve operations to
18 influence the available supply of reserves attempt
19 is constantly made to adjust the total supply of
20 reserves to current reserve needs consistent with
21 monetary policy goals, but individual banks must
22 adjust their own positions to conform to requirements.
23 Attention is given to other factors that may affect
24 the supply of reserves available to member banks,
25 such as gold movements, demand for currency, changes
26 in Treasury and foreign official deposits at the
27 Reserve Banks, and the volume of "float" represented
28 by uncollected checks at the Reserve Banks.
29 Information as to these changes is promptly available
30 on a daily basis and may be estimated in advance with



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in Treasury and foreign official deposits at the
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1 varying degrees of accuracy. As a result, variations
2 in the available supply of reserves relative to reserve
3 needs and in the distribution among individual banks
4 have a prompt and sensitive impact upon money markets.

5 27. Role of the discount rate. Because
6 of the atomized nature of the American banking
7 structure, member bank borrowing from the Federal
8 Reserve Banks is more frequent than is such borrowing
9 at the Bank of Canada. This is because individual
10 banks cannot always anticipate variations in their
11 reserve needs. Borrowing may also be resorted to at
12 times because the total supply of reserves made
13 available may, as a matter of policy, not equal the
14 total of required reserves plus excess reserves
15 that some banks choose to hold; hence some banks
16 find it necessary to borrow from the Reserve Bank.
17 Banks generally do not view borrowing with favour
18 and this tradition is encouraged by the Reserve Banks;
19 hence borrowing, while supplying additional reserves
20 to the banking system, has a restraining effect on
21 credit expansion even though such borrowing in the
22 aggregate is seldom more than a small percentage of
23 total bank reserves.

24 28. Even when Federal Reserve policy is
25 directed toward encouraging credit expansion by
26 supplying reserves through open market operations,
27 individual banks occasionally find it necessary to
28 borrow to make temporary, generally unanticipated,
29 adjustments in reserve positions. When banks are
30

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28. When such Federal Reserve policy is

directed toward encouraging credit expansion of

individual banks occasionally find it necessary to

borrow from the Federal Reserve Bank

in reserve positions. When banks are



1 faced with vigorous credit demands and credit expansion
2 is being restrained, borrowing becomes more frequent
3 and sustained.

4 29. Treasury bill rates are likely to vary
5 in response to such variations in credit conditions
6 and in the volume of member bank borrowings at the
7 Reserve Banks. This is so because banks are likely to
8 sell Treasury bills if necessary to pay off
9 indebtedness and may sell bills to keep out of debt.
10 If Federal Reserve discount rates are below or only
11 slightly above Treasury bill rates, some banks may prefer
12 to borrow rather than sell Treasury bills, particularly
13 if the individual bank's reserve stringency is believed
14 to be temporary, as is commonly the case.

15 30. Federal Reserve discount rates may be
16 adjusted to deal with these varying situations.
17 If credit expansion is being encouraged, then the
18 discount rate may be kept close to the bill rate and
19 not raised in case of a rise in the bill rate. Or,
20 if increased reserve demands necessitating borrowing
21 are known to be solely or largely of a temporary
22 nature, an increase in the discount rate may be
23 considered inappropriate. If, on the other hand,
24 credit expansion is being restrained, the discount
25 rate needs to be raised as the bill rate rises.
26 At times, other factors may be considered in fixing
27 the discount rate, such as for example the inter-
28 national balance of payments of the country.
29 Moreover, the degree of restraint on banks exerted
30 by the discount rate depends not only on the level



...with vigorous credit ...
...
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credit expansion is being restricted, the discount

rate needs to be raised as the bill rate rises.

At times, other factors may be considered in fixing

the discount rate, such as for example the inter-

national balance of payments of the country.

However, the degree of restriction on banks exercised

by the discount rate depends not only on the level



1 relative to bill rates but also on the volume of
2 borrowing, the number of banks involved, and the
3 continuity of borrowing by individual banks.

4 31. For these reasons, automatic variations
5 in the discount rate in response to changes in the
6 rate on Treasury bills, as is done in Canada, have
7 not been considered appropriate to the United States
8 situation. It should be said, however, that there
9 are those who hold a different view.

10 32. Regulation of interest on deposits --
11 Since 1933 member banks and since 1935 all banks
12 whose deposits are insured by the Federal Deposit
13 Insurance Corporation have been prohibited from
14 paying interest on demand deposits, and the rates
15 they could pay on time deposits have been limited
16 by regulation. These provisions were evidently
17 designed to prevent banks from competing for
18 deposits by paying rates of interest that would induce
19 acquisition of unsound assets. The prohibition of
20 interest payments on demand deposits, moreover, was
21 particularly designed to limit the flow of balances
22 to city banks, which in the past used the funds
23 principally to lend on call to finance stock market
24 speculation in margin accounts.

25 33. Such practices were considered to be in
26 part responsible for the excessive stock market speculation
27 on credit in the late 1920's and the subsequent
28 collapse of the financial system with widespread
29 bank failures. Other, probably more basic, causes
30 of the difficulties of the 1920's and early 1930's and

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1 other reasons for the dominating importance of the stock
2 market call-loan market have been corrected since 1933
3 by the imposition of margin requirements on stock-market
4 credit, along with other regulations of stock trading,
5 and by the development of the market for Treasury bills.
6 Yet the prohibition of interest on demand deposits has
7 probably also been a factor in diminishing the role
8 of New York banks in the money market since the 1920's.

9 34. Other reasons may be advanced for the
10 continuation of such a prohibition. One is that the
11 liquidity provided by demand deposits is a sufficient
12 inducement for their being held without any interest
13 return. A corollary reason is that holders of liquid
14 assets wanting an interest return should undergo the
15 risk of converting the funds into cash when cash is
16 needed and not impose that risk on banks. If a bank
17 must pay interest to attract the funds, it must invest
18 them in higher yielding less liquid assets and run
19 the risk of loss when the funds are withdrawn. This
20 is a part of reasoning that such payments may lead to
21 unsound banking practices.

22 35. Regulation of the amount of interest
23 that may be paid on time deposits may likewise be
24 considered desirable as a means of discouraging
25 competitive practices that might endanger the
26 soundness of individual banks and perhaps the banking
27 system as a whole. Another strong reason is that,
28 with differentials in reserve requirements against
29 time and demand deposits and with prohibition of
30 interest payments on demand deposits, some gradation is

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...interest payments on demand deposits, some gradation is



1 needed. It is for this reason that the permitted maxima
2 on deposits held for shorter periods are lower than
3 the maximum permitted on those held for longer periods
4 of time.

5 36. The line of distinction between time
6 and demand deposits is not a sharp one. Banks are under
7 some inducement to attract time deposits, because
8 of the lower reserve requirements. If they are led
9 by competition to pay relatively high rates for short-term,
10 highly volatile deposits, the distinction between demand
11 deposits and time deposits becomes less clear. The
12 breakdown of such distinction would tend to defeat the
13 monetary-policy reason for requiring lower reserves
14 against time deposits.

15 37. Maintenance of well-defined distinctions
16 between time and demand deposits is not so essential
17 in Canada, where reserve requirements on demand and
18 time deposits are the same and where interest payments
19 on deposits are not regulated. Whether or not the
20 Canadian practices in any way encourage unsound banking
21 habits or interfere with the proper conduct of monetary
22 policies, I do not feel qualified to discuss. The
23 danger may be less in the case of larger, more
24 diversified, branch banking systems than with numerous
25 small, localized banks.

26 38. Role of central bank in public debt
27 management. In both Canada and the United States,
28 the central banks serve as agents for the Treasury
29 in the handling of public debt operations and other
30 fiscal matters. If my understanding is correct, the



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in the management of the government's debt and in

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1 role of the Bank of Canada in public debt management
2 is more active and is exercised with a higher degree
3 of responsibility for decisions as to types of
4 issues and timing than is the case with the Federal
5 Reserve Banks. On the other hand, the commercial
6 banks are used in effect as underwriters of public
7 debt offerings in the United States in a manner not
8 found in Canada.

9 39. Federal Reserve Banks are specifically
10 empowered by law to act as depositaries and fiscal agents
11 for the Treasury. In the performance of these functions
12 the principal-agency relationship is direct between the
13 Treasury and the individual Reserve Banks. The Board
14 of Governors does not directly enter into this relationship.
15 The Treasury keeps relatively small active balances
16 on deposit at each of the Federal Reserve Banks and
17 their branches. Disbursement of Government funds is
18 mostly by cheque drawn on the Treasury accounts at the
19 Federal Reserve Banks. The Reserve Banks receive
20 certain Government receipts for the credit of the
21 Treasury.

22 40. Commercial banks may become "special
23 depositaries" of the treasury and carry "tax and loan
24 deposit" accounts, which must be secured by Government
25 securities or other acceptable collateral. A bank
26 designated as a special depositary credits to the tax
27 and loan account the proceeds of its customers' and its
28 own subscriptions to Government securities issued by
29 the Treasury from time to time. Banks also receive
30 and credit to tax and loan accounts taxes paid by or

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and credit to tax and loan accounts taxes paid by or



1 withheld at the source by large business customers
2 of the respective banks. As the Treasury calls for
3 the funds, they are transferred to a Treasury account
4 at a Federal Reserve Bank and become available for
5 disbursement.

6 41. Tax and loan deposit accounts are a
7 convenient device for the sale of Government
8 securities in large volume and, coupled with their
9 use for tax receipts, provide a means of moderating the
10 effect on member bank reserves of fluctuations in the
11 Treasury's cash receipts. The great bulk of Government
12 deposits is carried by the Treasury in these accounts,
13 pending transfer to the Federal Reserve Banks. Each
14 Federal Reserve Bank administers for the Treasury the
15 tax and loan deposit accounts of the banks -- both
16 member and nonmember -- in its district.

17 42. Use of the tax-and-loan account procedure
18 provides in effect a unique and effective means of
19 underwriting both large and small issues of Government
20 securities. Individual banks obtain an advantage in
21 being able to acquire securities and then to hold them
22 for a period without making payment in cash. The funds
23 are drawn upon by the Treasury over a period of time
24 as they are needed to meet expenditures and thus are
25 returned promptly to the banks, although not necessarily
26 the same bank.

27 43. This procedure avoids the necessity of
28 having the central bank purchase a large part of a new
29 issue and endeavour to sell it as the funds are
30 expended by the Treasury, as is done in some countries.



1 In fact, the Federal Reserve Act does not permit the
2 Federal Reserve Banks to lend directly to, or buy
3 securities directly from, the Treasury, except to a limited
4 extent.

5 44. The Federal Reserve Banks, as fiscal
6 agents, perform various services for the Treasury in
7 connection with the issuance of new Government securities,
8 the periodic auctions of Treasury bills, and redemption
9 or exchanges of maturing issues. The Federal Reserve
10 Bank of New York also executes transactions in United
11 States Government securities in connection with the
12 management of various trust and agency funds administered
13 by the Treasury.

14 45. In all of these operations, the
15 responsibility for decisions as to specific operations
16 rests with the Treasury. In making many of the
17 decisions Treasury officials consult with Federal
18 Reserve officials, particularly the Federal Reserve
19 Bank of New York, especially with respect to operations
20 that may have an effect on the reserve position of
21 banks and the money market. Officials of the Board
22 of Governors and often officers of other Reserve Banks
23 are also consulted by the Treasury with respect to
24 new issues of securities and market developments. There
25 are constant and close contacts between Treasury and
26 Federal Reserve staffs not only on operating matters
27 but also on questions of information and analysis.

28 46. International position. Monetary
29 policies in Canada and the United States may also be
30 differently influenced by their positions with respect

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securities directly from, the Treasury, except to a limited

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6. International position. Monetary

policies in Canada and the United States may also be



1 to the international balance of payments. In general,
2 Canada receives a large net inflow of capital sufficient
3 to offset a customary excess of imports over exports on
4 current account. Its payments balance is generally
5 subject to wide variations in magnitude. Canadian
6 monetary and fiscal policies have had to be formulated
7 with these considerations in view, and various means,
8 including fluctuating exchange rates and at times in the
9 past controls of borrowing abroad, have been used to
10 deal with that situation.

11 47. In the United States, until recent
12 years problems of the balance of payments and of dollar
13 convertibility have not been important considerations
14 in the determination of monetary policy. They were of
15 concern only as it was necessary or desirable for
16 domestic purposes to offset the effects of gold movements
17 on the reserve position of banks. Or it might be said
18 that, because of the strained reserve positions of other
19 countries, U.S. policies actually facilitated outward
20 movements of funds and thus the accumulation of gold
21 and dollar reserves by other countries.

22 48. During the past three or four years,
23 however, i.e., since the restoration of convertibility
24 in the leading industrial countries, large deficits
25 in the United States balance of payments and consequent
26 drains or threatened drains on the U.S. gold stock
27 have necessitated some moderation of policies. In
28 order to avoid encouraging capital flows due to
29 interest rate differentials or to excess availability
30 over domestic wants, monetary policies have not permitted

...a customary excess of imports over exports on
current account. The payments balance is generally
subject to wide variations in magnitude. Canadian
...with these considerations in view, and various means
including fluctuating exchange rates and at times in the
past controls of borrowing abroad, have been used to

47. In the United States, until recent
years problems of the balance of payments and of dollar
convertibility have not been important considerations
in the determination of monetary policy. They were of
concern only as it was necessary to maintain the
domestic purposes to offset the effects of gold movements
on the reserve position of banks. On the other hand
that, because of the virtual reserve position of other
countries, U.S. policies were largely determined by
movements of funds and thus the accumulation of gold
and dollar reserves by other countries.

48. During the past three or four years
however, i.e., since the restoration of convertibility
in the leading industrial countries, large deficits
...drains or threatened drains on the U.S. gold stock
have necessitated some modification of policies. In
order to avoid encroaching capital flows due to
interest rate differentials or to excess availability
over domestic wants, monetary policies have not been



1 or promoted declines in interest rates to levels that might
2 otherwise have been permissible or desirable for
3 domestic purposes.

4 49. Since the U.S. dollar is extensively
5 used as a vital reserve currency throughout the world
6 and foreigners maintain very large dollar holdings, it
7 is essential that there never be any question as to
8 the convertibility of the dollar at an unchanged rate
9 into gold or into some generally acceptable international
10 medium of exchange and store of value. For the present
11 and the foreseeable future, monetary and fiscal policies
12 in the United States must be conducted with a view
13 to maintaining confidence in the convertibility and
14 stability of the U.S. dollar.^{4/}

15 II. Broad Objectives of Monetary Policy

16 50. Although there are significant differences
17 in structure of monetary institutions, in operating
18 procedures, and in emphasis placed on different phases,
19 the broad objectives of monetary policy for nearly
20 every country in modern times may be expressed in
21 approximately identical terms. The broad purpose is
22 to influence monetary and credit developments so as
23 to make a maximum contribution to general welfare,
24 while endeavoring to assure convertibility of the
25 currency of the country in international payments.

26
27 ^{4/} International considerations in the determination
28 of Federal Reserve policies are discussed more
29 fully in Part V of this memorandum.
30



Since the U.S. dollar is universally used as a virtual reserve currency throughout the world and foreigners maintain very large dollar holdings, it is essential that there never be any question as to the convertibility of the dollar at an unchanged rate into gold or into some generally acceptable international medium of exchange and store of value. For the present and the foreseeable future, monetary and fiscal policies in the United States must be conducted with a view to maintaining confidence in the convertibility and stability of the U.S. dollar.

50. Although there are significant differences in structure of monetary institutions, in operating procedures, and in emphasis placed on different items, the broad objectives of monetary policy for nearly every country in modern times may be examined in approximately identical terms. The broad purpose is to influence monetary and credit developments so as to make a maximum contribution to general welfare, while endeavoring to secure convertibility of the currency of the country in international payments.

4. International considerations in the determination of Federal Reserve policies are discussed more fully in Part V of this memorandum.



1 51. Expressed more specifically, the broad
2 objectives of the Federal Reserve may be said to be
3 fourfold:

- 4 1. To assure availability of a sufficient
5 supply of bank credit and cash money for
6 sustained economic growth and development.
- 7 2. To help maintain reasonable stability
8 in the purchasing power of the currency --
9 i.e., in the general level of prices --
10 by avoiding inflation or deflation.
- 11 3. To assure international convertibility
12 of the currency by protecting the
13 country's gold reserve and its foreign
14 exchange position.
- 15 4. In endeavoring to achieve these other
16 objectives, to maintain the operation of
17 free markets in a free enterprise system.

18 52. These objectives of goals are expressed
19 in broad terms and they are the aims of economic policy
20 in general, not merely of Federal Reserve policy. In
21 fact, Federal Reserve policy cannot assure their
22 achievement, although unwise monetary policies may
23 interfere with or prevent their attainment. The
24 processes and procedures through which monetary policy
25 is executed, or what may be called the more immediate
26 objectives of Federal Reserve policy, are necessarily
27 more specific than these broad goals, but they can
28 never be dissociated from them.

29 53. Formulation and execution of monetary
30 policy is a continuous process that requires constant



10:

1. To assure availability of a sufficient supply of bank credit and cash money for sustained economic growth and development.
2. To help maintain reasonable stability in the purchasing power of the currency -- i.e., in the general level of prices -- by avoiding inflation or deflation.
3. To assure international convertibility of the currency by protecting the country's gold reserves and the foreign exchange position.

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5. These objectives of goals are expressed

in broad terms and they are the aims of economic policy in general, not merely of Federal Reserve policy. In fact, Federal Reserve policy cannot assume their achievement, although unlike monetary policies may intervene with an attempt to their achievement. The processes and procedures through which monetary policy is executed, or what may be called the more immediate objectives of Federal Reserve policy, are necessarily more specific than these broad goals, but they can never be dissociated from them.

52. Realization and execution of monetary policy is a continuous process that requires constant



1 review of economic and financial developments and
2 adaptation to such developments. As stated in the
3 Board's answers to questions by the Commission on
4 Money and Credit.

5 "Implicitly involved in the consideration
6 of policy are three interrelated questions:
7 In what respects is the whole constellation of
8 past and prospective events, as seen at a given
9 moment, contributing to or detracting from price
10 stability, high level employment, and economic
11 growth? In what respects does it lie within
12 the power of the Federal Reserve to set forces
13 in motion, either to foster the attainment of
14 these goals or to counter any threats to that
15 achievement? What specific action should the
16 Federal Reserve take?"

17 54. Nearly everyone accepts or takes for
18 granted the ultimate goals of price stability, high-
19 level employment, and sustained economic growth. It
20 is important to emphasize that these various goals
21 need not be viewed as conflicting alternatives.
22 Policy formulation does not necessarily involve choices
23 as between price inflation or unemployment; or price
24 stability as against growth; or a balance in
25 international accounts as against full employment or
26 growth. Inflation is likely to lead eventually to
27 collapse or at least interferes with the attainment
28 of a maximum potential in resource utilization. A
29 price or interest rate structure that upsets balance
30 in international payments is also a defective basis

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Policy formulation does not necessarily involve choices
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International reserves and a stable full employment
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collapse or at least stagnation when the attainment
of a maximum potential in resource utilization. A
price or interest rate structure that creates balance
in international payments is also a desirable basis



for domestic growth and full employment.

55. With respect to consideration given to these broad objectives in policy formulation, again the Board's answer to the Commission on Money and Credit may be quoted:

"Information required for the broad and continuing analysis of economic forces pertinent to policy decision is almost unlimited in scope. Information available at any time is limited and judgments must often be based on incomplete facts. Even more important than the information itself are the judgments that must be made in interpreting the data: for example, judgments as to the stage of the business cycle the economy has reached, involving views as to whether consumption, saving, and investment are in balance or are showing signs of disequilibrium; judgments as to the climate of expectations about price movements, equity values, and interest rates; and judgments as to the trend of the international balance of payments. It is in the light of judgments such as these that decisions must be reached as to the appropriate degree of restraint or encouragement to be imposed on expansion of bank credit."



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degree of restriction or encouragement to be imposed

on expansion of bank credit."



III. Instruments of Federal Reserve Policy

56. It must be recognized that Federal Reserve policies taken alone cannot be relied upon to assure the achievement of these broad objectives. The specific influence of Federal Reserve actions is much more limited. They affect principally liquidity and credit and more directly bank credit and liquidity held in the form of cash balances. The primary responsibility of the Federal Reserve may be expressed even more narrowly as determination of the volume of member bank reserves. Quoting the Board's answers to the Commission on Money and Credit:

"Whatever broad influences may flow from (Federal Reserve) actions, the particular economic or financial variable over which they have anything approaching full and direct control is the total of commercial bank reserves. Through this control, they exert a strong influence directly on total loans and investments and total deposits of banks and indirectly some influence on spending, investment, and saving by the public in general. At any given moment, therefore, the choice for Federal Reserve policy lies between various degrees of restraint upon or encouragement to expansion of bank credit through altered reserve availability."

.....

"Through this channel monetary policy affects the over-all liquidity of the economy and interest rates, which in turn influence saving and spending."

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"Whatever broad influences may flow from (Federal Reserve) actions, . . . the particular economic or financial variables over which they have anything approaching total and direct control is the total of commercial bank reserves.

Through the Federal Reserve's control of the influence directly on total loans and investments and total deposits of banks and investment companies influence on spending, investment, and saving by the public in general. As any given instrument, therefore, the choice for Federal Reserve policy lies between various degrees of restraint upon or encouragement to expansion of bank assets through altered reserve availability."

Through this channel monetary policy affects rates, which in turn influence saving and spending."



1 57. In performing its responsibility for
2 the regulation of bank reserves, the Federal Reserve
3 relies principally upon three well-known instruments;
4 discount operations, purchases and sales of securities
5 and bills in the open market, and changes in reserve
6 requirements. These instruments are used in a
7 complementary fashion to affect the availability and
8 cost of member bank reserves.

9 58. In the United States, each member bank
10 is required to maintain a reserve balance with its
11 Federal Reserve Bank, together with coin and currency
12 held in its own vaults, equal to specified percentages
13 of its demand deposits as defined for this purpose and
14 of its time deposits. The required reserve base
15 constitutes the fulcrum for the System's monetary
16 operations. With a given level of reserve requirements,
17 changes in the volume of member bank reserves, per-
18 mitted or brought about by System action, affect
19 directly the ability of member banks to extend credit
20 and to assume deposit liabilities.

21 59. Policy is effected by regulating the
22 supply of reserves relative to the amounts that banks
23 are required to hold. Other factors than Federal
24 Reserve operations influence the supply of reserves.
25 In determining the appropriate volume of reserves
26 that should be supplied through Federal Reserve
27 operations, these effects must be taken into consideration --
28 to be either offset or permitted to hold. These
29 factors include:

30 (a) gold transactions;



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Reserve operations influence the supply of reserves.
In determining the appropriate volume of reserves
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operations, the System must be guided by the need
to be either offset or permitted to hold. These



- (b) changes in deposits at the Reserve Banks of foreign official bodies or international agencies;
- (c) changes in currency in circulation;
- (d) Treasury operations involving shifts of deposits to or from the Reserve Banks; and
- (e) changes in Federal Reserve float, i.e., the excess of checks in process of collection that have been credited to member bank accounts over those not yet charged against member bank accounts.

Specific Federal Reserve operations used to influence the supply of reserves may be briefly described as follows:

60. Discounts. -- Member bank borrowing at the Reserve Banks, together with the rate of discount charged on such borrowing, was originally considered to be the basic instrument of Federal Reserve policy. Borrowing is done at the initiative of member banks to obtain reserves, generally because they are needed to restore deficiencies. These deficiencies may have resulted from shifts of deposits to other banks or withdrawals of currency. Drains on reserves of an individual bank or an increase in deposits and thus in required reserves without any accompanying increase in available reserves might have grown out of expansion of loans or investments.

61. A growing volume of discounts, experience has proven, is a powerful factor acting to brake bank



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51. A growing volume of discounting, experience
has proven, is a powerful factor acting to brake bank



1 credit expansion. This is true, notwithstanding the
2 fact that discounting is a source of additional
3 reserves to member banks. One of the functions of the
4 discount mechanism is to serve as a safety valve,
5 providing a temporary means of adjustment to the
6 frequent reserve deficiencies that occur at times
7 of pressure on reserves. But use of the safety valve
8 does not provide an escape from monetary restraint.

9 62. For one thing, use of the safety
10 valve can be made more expensive by increases in
11 Reserve Bank discount rates. Secondly the very fact
12 of being indebted -- to the Reserve Bank or to others --
13 tends to make banks restrict credit expansion and to
14 use new reserves that come into their possession to
15 repay their indebtedness rather than to expand credit.
16 This follows both from the traditional reluctance of
17 banks to assume liabilities that take precedence over
18 those to depositors and from Federal Reserve practice
19 in administering the discount window, which ordinarily
20 discourages reliance on discounting for extended periods.

21 63. Ability of banks to borrow reserves
22 thus imparts a degree of flexibility to the impact of
23 Federal Reserve policy but becomes increasingly
24 restraining as borrowings are expanded or continued.
25 Evidence of the restraining effect of member bank
26 borrowing is found in the fact that the variations in
27 money market interest rates are closely related to the
28 volume of borrowing, as well as to the level of the
29 discount rate.

30 64. Open market operations, which are

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fact that discounting is a source of additional

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repay their indebtedness rather than to expand credit.

This follows both from the traditional reluctance of

banks to borrow from the Federal Reserve Bank

and from the fact that the Reserve Bank's policy

is to maintain the minimum reserve ratio, which

discourages banks from borrowing from the Reserve Bank

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money market interest rates are closely related to the

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discount rate.

64. Open market operations, which are



1 conducted at the initiative of the Federal Reserve,
2 affect the availability of non-borrowed reserves for
3 banks in general. They are conducted so as to
4 encourage banks to expand credit without the restraint
5 of borrowing or alternatively to prevent expansion or
6 make it necessary for banks to borrow for the purpose.
7 This is the most delicate and most used instrument of
8 policy and has a pervasive effect on credit availability
9 channeled through the money market.

10 65. Open market operations are utilized to
11 regulate the volume of member bank reserves from day
12 to day and from week to week. Each purchase of
13 securities -- usually Treasury bills -- adds to
14 member bank reserves and each sale absorbs member bank
15 reserves. Open market operations are well suited for
16 shorter term reserve changes, including those called
17 for by seasonal variations in currency and credit needs
18 and by intra-monthly changes in reserve needs. In
19 addition, open market operations are used to establish
20 the reserves needed for economic growth and also to
21 vary reserves in accordance with cyclical movements in
22 the economy.

23 66. Open market transactions by the System
24 and the discount function operate in close association.
25 In a period of monetary restraint, open market operations
26 provide a smaller amount of reserves than the banks
27 are seeking as they attempt to satisfy the economy's
28 demands for credit, or such operations at times may
29 even absorb reserves, although absorption of reserves
30 is usually effected only to cover a decline in reserve



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1 needs following a seasonal or other temporary expansion
2 in the reserve supply. As a result, individual banks,
3 to meet loan demands, may dispose of Government securities
4 in the market, or call demand loans, or if they are
5 unwilling to liquidate assets, they have to borrow from
6 the Reserve Banks. Such action serves to reduce bank
7 liquidity and this in time works as an influence to check
8 loan expansion by the affected banks.

9 67. Changes in reserve requirements of member
10 banks may be used to affect the availability of reserves
11 for credit extension without changes in the total volume
12 of reserves. It is essential that reserve requirements be
13 closely related to the availability of reserves. The
14 Board of Governors has authority to vary the reserve
15 percentages for each of the two classes of banks
16 within specified limits set by law. A change in
17 reserve requirements is not a delicate instrument
18 adaptable to day-to-day and short-run operations. It
19 affects all or large groups of banks regardless of the
20 locus of current needs or demands and generally calls
21 for notice well in advance of effective dates. It
22 is primarily useful for making major adjustments in the
23 availability of reserves. An increase in requirements
24 is especially difficult to impose because of the impact
25 of adjustments in case there are no excess reserves.
26 Increases can, however, be used for absorbing rather
27 large redundancies.

28 68. Other measures. -- Besides the three major
29 instruments of policy discussed above, the System also
30 has regulatory powers over margin requirements in con-



needs following a seasonal or other temporary expansion in the reserve supply. As a result, individual banks, to meet loan demands, may dispose of Government securities in the market, or call demand loans, or if they are unwilling to liquidate assets, they have to borrow from the Reserve Banks. Such action serves to reduce bank liquidities and this in turn tends to increase the loan expansion by the affected banks.

67. Disposal of Government securities by banks may be used to affect the availability of reserves for credit extension without changes in the total volume of reserves. It is essential that reserve requirements be closely related to the availability of reserves. The Board of Governors has authority to vary the reserve percentages for each of the two classes of banks within specified limits set by law. A change in reserve requirements is not a delicate instrument adaptable to day-to-day and short-run operations. It affects all or large groups of banks regardless of the focus of current needs or demands and generally calls for notice well in advance of effective dates. It is primarily useful for making major adjustments in the availability of reserves. An increase in requirements is especially difficult to impose because of the impact of adjustments in case there are no excess reserves. Increases can, however, be used for absorbing rather large redundancies.

68. Other measures. -- Besides the three measures of policy discussed above, the System also has regulatory powers over margin requirements in con-



1 nection with stock market credit and at times in the
2 past has had comparable powers over real estate and
3 consumer instalment credit. These selective credit
4 instruments, supplementing general regulation of
5 member bank reserves to influence the total flow of
6 bank credit and money, affect the borrower's equity or
7 the rate of his debt retirement or both and serve to
8 restrain demands for the types of credit covered.

9 69. Selective credit regulation in the
10 United States by these techniques has been designed
11 to influence the credit flow in financing areas shown
12 by experience to be highly volatile in movement, either
13 cyclically or for other reasons. Such measures are
14 best applicable for regulating types of credit that
15 may not be sufficiently susceptible to controls over
16 reserve availability and are, or might become, so
17 important as to be a serious unstabilizing influence.
18 This was the case for brokers' loans in the 1920's.

19 70. Disadvantages of their use result
20 mainly from problems of administration and equity in
21 dealing with a variety of lending institutions,
22 including nonbank lenders less susceptible to Federal
23 Reserve regulation than banks, and also in handling a
24 complex variety of transactions. Except in a clear-
25 cut case of widespread unstabilizing effects caused by
26 a particular practice, it is believed to be preferable
27 to exert the influence of monetary policy through
28 general regulation of the over-all availability of credit,
29 leaving allocation to be determined by market processes.

30 71. Utilization of direct methods of suasion



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general regulation of the over-all availability of credit,
leaving allocation to be determined by market processes.
71. Utilization of direct methods of control



1 to induce banks or other lenders to restrict loans or
2 investments of particular types or to keep the total
3 within specified limits has seldom been resorted to in
4 the United States. Where attempted they have usually
5 met with little success. The reason for this is
6 partly the difficulty of keeping under control the
7 large number of banks and other lending units. Such
8 efforts place an inequitable burden on those that comply
9 relative to those that evade or ignore the regulations.
10 These methods are also considered undesirable because
11 they may interfere unduly with the functioning of
12 market processes.



IV. Guides to and Effectiveness of Federal
Reserve Actions

72. It follows from the previous discussion that, although the ultimate goals of monetary policy are expressed in broad terms, the immediate primary guide to Federal Reserve operations is the reserve position of banks. In an answer to a question from the Joint Economic Committee of Congress, 1/ the Chairman of the Board summarized the influence of monetary policy as follows:

"....Monetary policy exerts its influence almost immediately and directly upon the volume of commercial bank reserves, the amount of which can be promptly and accurately measured and can be largely controlled by Federal Reserve actions on its own initiative. This control is not complete because member banks may on their initiative borrow reserves or use reserves to reduce borrowings at the Reserve banks. Through the medium of bank reserves, policy actions influence the money supply. These secondary effects are in turn strongly affected by the attitudes and actions of banks in adjusting to changes in reserves and in their willingness to borrow from the Reserve Banks. They are also affected by the decisions of borrowers with respect to the use of bank credit.

1/ "Review of Annual Report of the Federal Reserve System for the Year 1960", U.S. Government Printing Office, 1961, p.154.



Reserve Actions

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1 "Ultimate consequences of changes in the
2 money supply upon general economic activity, em-
3 ployment, and prices are determined by eventual
4 holders of funds, who are motivated by many factors
5 other than cash holdings. More especially, the
6 bulk of current financial transactions reflects the
7 use of existing funds rather than changes in the
8 total volume of cash balances and these uses are
9 likewise influenced by many factors of a nonmonetary
10 nature. All of this means that, although monetary
11 policy actions have marginal effects of significance,
12 assessment of these consequences is generally diffi-
13 cult and sometimes impossible. It must be to some
14 extent a matter of judgment."

15 73. Decisions made by the Federal Open
16 Market Committee as to the degree of restraint or en-
17 couragement that should be imposed on bank credit
18 expansion are reached after careful consideration and
19 discussion of the economic situation in general, with
20 particular attention to factors that relate to bank
21 credit developments. These decisions are made at
22 meetings of the Committee held approximately every three
23 weeks.

24 74. In preparation for such meetings, members of
25 the Committee, and other participants, are supplied with
26 comprehensive analyses of economic and credit conditions
27 supplied by staffs of the Board and the respective
28 Reserve Banks. At the meetings, following brief staff
29 reports of operations and analytical economic reviews,
30 each Reserve Bank President presents a statement of

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73. Decisions made by the Federal Open

Market Committee as to the degree of restriction or en-

couragement that should be imposed on bank credits

expansion are reached after careful consideration and

discussion of the economic situation in general, with

particular attention to factors that relate to bank

credit developments. These decisions are made at

meetings of the Committee held approximately every three

weeks.

74. In preparation for such meetings, members of

the Committee, and other participants, are supplied with

comprehensive analyses of economic and credit conditions

supplied by staffs of the Board and the respective

Reserve Banks. At the meetings, following oral reports

reports of operations and analytical economic reviews,

each Reserve Bank President presents a statement of



1 regional conditions and, together with Board members,
2 states his views as to what policy actions should be
3 adopted.

4 75. The policy decision reached by the
5 Committee cannot be interpreted or illustrated by any
6 precise mathematical formula. It is expressed in
7 terms of a directive issued to the Manager of the
8 Federal Open Market Account at the Federal Reserve
9 Bank of New York. These directives and the reasons
10 for their adoption are subsequently published in the
11 Record of Policy Actions included by statutory re-
12 quirement in the Annual Report of the Board of Governors.
13 The latest published directive adopted in December 1961
14 reads as follows:

15 "It is the current policy of the Committee
16 to permit further bank credit and monetary
17 expansion so as to promote fuller utilization
18 of the economy's resources, together with money
19 market conditions consistent with the needs of
20 both an expanding domestic economy and this
21 country's international balance of payments
22 problem.

23 "To implement this policy, operations for
24 the System Open Market Account shall be
25 conducted with a view to providing reserves for
26 bank credit and monetary expansions (with
27 allowance for the wide seasonal movements
28 customary at this time of the year), but with
29 a somewhat slower rate of increase in total
30 reserves than during recent months. Operations



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"It is the current policy of the Committee to permit further bank credit and monetary expansion so as to promote living conditions of the economy's resources, together with money market conditions consistent with the needs of both an expanding domestic economy and the country's international balance of payments problem.

"To implement this policy, operations for the System Open Market Account shall be conducted with a view to providing reserves for bank credit and monetary expansions (with allowance for the wide seasonal movements customary at this time of the year), and with a somewhat slower rate of increase in total reserves than during recent months. Operations



1 " shall place emphasis on continuance of the 3-month
2 Treasury bill rate at close to the top of the
3 range recently prevailing. No overt action
4 shall be taken to reduce unduly the supply of
5 reserves or to bring about a rise in interest
6 rates."

7 76. In conducting operations the Management
8 is guided by the directive formally adopted, by the
9 discussion of the economic situation, and by any more
10 specific or detailed instructions that might have grown
11 out of views expressed at the meetings. The substance
12 of these discussions and views is published in the
13 Record Actions. Operations are conducted within limits
14 imposed by the directive and by various continuing
15 operating procedures that have been adopted by the
16 Committee. Between meetings members of the Committee
17 are promptly informed of all operations.

18 77. Factors considered by the Committee in
19 making its policy decision are numerous and are both
20 broad and narrow. As the Board stated in its answers
21 to the Commission on Money and Credit:

22 "It follows that in formulating policies the
23 Federal Reserve authorities must be cognizant of
24 developments with respect to production, employ-
25 ment, and prices, as well as the financial variables
26 more directly affected by monetary policies. They
27 must appraise the course of developments and make
28 judgments as to any emerging imbalances and their
29 causes. These analyses require the assembly and
30 interpretation of a large amount of information

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1 " in many aspects of the economic situation --
2 foreign as well as domestic."

3 78. Factors considered by the Management
4 of the Open Market Account in conducting short-term
5 operations are somewhat narrower and more specific.
6 Tests of the effectiveness or limitations of policy
7 are necessarily rather broad and must take into
8 consideration all factors other than monetary policy that may
9 have exerted an influence. The principal considerations
10 that bear upon all of these judgments will be discussed
11 separately.

12 79. Production, employment and prices. --
13 Basic to decisions by the Open Market Committee as to open
14 market operations and by the Board and Reserve Bank
15 officials as to discount-rate and other policy actions
16 are the broad national objectives of price stability,
17 high level employment, and economic growth. The
18 Board of Governors and the Open Market Committee have
19 always given close attention to the movement of
20 production, employment, and prices, both in general
21 terms and with respect to components. In the 1920's
22 the Board constructed and published index numbers of the
23 physical volume of industrial production and also
24 indexes of factory employment and payrolls. The
25 industrial production index has frequently been
26 revised to incorporate improvements in underlying data and
27 techniques. The Reserve Banks have also for over
28 40 years collected statistics of sales and inventories
29 from department stores. The Federal Reserve also makes
30 constant use of economic statistics obtained from other



in many aspects of the economic situation --
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78. Factors considered by the Management

of the Open Market Account in conducting monetary
operations are somewhat narrower and more specific.
Tests of the effectiveness or limitations of policy
are necessarily rather broad and must take into

consideration all factors which may be expected to
have exerted an influence. The principal considerations
that bear upon all of these judgments will be discussed
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revised to incorporate improvements in collecting data and
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40 years collected statistics of sales and inventories
from department stores. The Federal Reserve also makes
constant use of economic statistics obtained from other



1 sources, as well as of first-hand reports of or views
2 concerning the course of events.

3 80. With regard to achievement of the broad
4 aims of policy, the Board of Governors pointed out in
5 its answers to the Commission on Money and Credit:

6 ".....Satisfactory achievement of these
7 objectives depends on actions of the Congress and
8 the Executive and on actions of people in all
9 walks of life. Disturbances to economic
10 stability and growth may arise in many ways.
11 Generally, the roots of the trouble develop long
12 before overt signs are clearly seen. In an
13 industrial economy, growth tends to proceed
14 irregularly through cycles of advance and re-
15 cession or pause. Some cyclical variation
16 may be the unavoidable result of the self-correcting
17 forces of the market system. A flexible price
18 system is essential for maintaining balance
19 between production and consumption of particular
20 goods and services. At times structural im-
21 balances develop that cannot be corrected by
22 general public policies.

23 "The task of public policies is to endeavor
24 to detect forces of disturbance and to temper excessive
25 movements in one direction or another so far as
26 possible. Federal Reserve powers contribute
27 most to the achievement of the national objectives
28 of price stability, high level employment and
29 economic growth when they are so exerted as to
30 minimize price inflation or deflation, to damp



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1 " down expectations of sudden and violent changes
2 in commodity prices or in equity values, and
3 to prevent unsustainable expansion or discourage
4 harmful contraction in bank credit. The
5 immediate task of Federal Reserve policy is to
6 decide upon the degree of restraint or encourage-
7 ment to be imposed on bank credit expansion
8 consistent with achievement of national objectives.
9 This may mean helping to check unstabilizing
10 developments in the economy influenced by
11 credit factors when they become apparent. It
12 also means helping to prevent such disturbances
13 from occurring.

14 "Federal Reserve policies, it needs to be
15 kept in mind, are exerted through influencing the
16 total volume of bank credit and money. It lies
17 beyond the powers of the Federal Reserve to
18 promote growth of particular segments of the
19 economy without affecting other segments in ways
20 that may or may not be desirable. It is likewise
21 difficult or impossible to restrain particular
22 activities without exerting general restraint.

23 "Clearly actions by the Federal Reserve
24 alone cannot assure the attainment of the broad
25 national objectives. Attempts to assure continuous
26 stimulation of over-all growth through bank credit
27 expansion, regardless of other developments, might
28 incur the risk of inflationary or speculative
29 developments that would be unsustainable and
30 thus create instability and unemployment or they may

down expectations of sudden and violent changes in commodity prices or in equity values, and to prevent unstatable expansion or contraction in bank credit. The immediate task of Federal Reserve policy is to decide upon the degree of restraint or encouragement to be imposed on bank credit expansion consistent with achievement of national objectives. Without such action, the economy influenced by developments in the economy influenced by monetary policy may become unstable. It also means helping to prevent such disturbances from occurring.

"Federal Reserve policies, it needs to be kept in mind, are exerted through influencing the behavior of the economy in the way it is beyond the powers of the Federal Reserve to promote growth of particular segments of the economy without affecting other segments in ways that may or may not be desirable. It is likewise difficult or impossible to restrain particular activities without exerting general restraint.

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1 "merely result in the accumulation of idle cash
2 balances with little perceptible effect in the
3 economy. Monetary policies cannot be expected
4 to prevent or correct imbalances that might
5 develop as a result of particular Governmental
6 actions, of structural imperfections in the
7 economy, or of mistakes of judgment made by
8 private businesses or individuals with respect
9 to the amounts and prices of goods and services
10 they offer. It may at times be unwise to endeavor
11 through monetary policies to prevent the
12 adjustments in the economy that such imbalances may
13 inevitably entail, although Federal Reserve actions
14 might help to ease the adjustment process. Any
15 such imbalances and their causes must at all
16 times be taken into consideration in determining
17 policies. Their existence may call for more
18 restrictive, or justify less restrictive, policies."

19 81. Bank reserves. -- The initial effect of
20 Federal Reserve action is upon bank liquidity, which
21 plays a special role in financial and economic processes.
22 Primary bank liquidity is determined by the net reserve
23 position of the banking system as a whole, which the
24 Federal Reserve can largely control. The particular
25 immediate purpose of open market operations, therefore,
26 is to keep banks supplied with a volume of bank reserves
27 adequate to support the volume of bank credit and money
28 considered appropriate.

29 82. The bulk of Federal Reserve operations are
30 directed toward counteracting the effects of various



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82. The bulk of Federal Reserve operations are

directed toward counteracting the effects of various



1 largely temporary factors that influence the
2 availability of or need for reserves. In the course
3 of a year the gross volume of System open market
4 operations may exceed \$10 billion; net changes in total
5 holdings in any one week may equal several hundred
6 million dollars; and the net change for the seasonal
7 low point of the year in the spring to the high point
8 in December customarily averages about \$1.5 billion.

9 83. These repetitive variations in the
10 Federal Reserve portfolio are almost wholly for the
11 purpose of covering normal seasonal movements and other
12 temporary changes in required reserves (resulting
13 from similar movements in deposits) and in currency
14 and in various factors affecting the supply of reserves.
15 The task of meeting these temporary and special needs is
16 in essence not a policy matter, but a technical operating
17 problem of measuring or otherwise detecting such
18 variations and making prompt adjustments to them.

19 84. Federal Reserve operations to cover
20 reserve needs resulting from cyclical or growth move-
21 ments in bank deposits in any short period of time such
22 as a week or a month are only a fraction of operations
23 necessary to offset the effects of variations in many
24 of the factors that influence the available supply of
25 reserves.

26 85. The total volume of reserves supplied
27 presents a goal and a measure of performance that is
28 directly related to the broader goal of making available
29 an adequate volume of bank credit and money. Banks,
30 however, on their own initiative may decide to hold

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1 excess reserves and not put them to use or they may
2 decide to borrow to obtain more reserves than are being
3 supplied at the initiative of the Federal Reserve.

4 86. A somewhat narrower and perhaps more
5 specific indicator of Federal Reserve intentions, or the
6 posture of policy, at the time is provided by the often-
7 used figure of "net free reserves" or "net borrowed
8 reserves". This figure is the difference between
9 total excess reserves (over requirements) held by
10 member banks and the total borrowings of member banks.
11 Banks holding excess reserves and those borrowing at
12 any one time are generally, but not always, different
13 groups.

14 87. As a matter of practice in recent
15 years, some banks (mostly small country banks)
16 regularly hold excess reserves; the aggregate of such
17 holdings fluctuates rather consistently around \$500
18 million. Additions to the supply of reserves generally are
19 reflected fairly promptly either in a reduction in
20 member bank borrowings at the Federal Reserve Banks
21 or in credit and monetary expansion, rather than in
22 additions to excess reserves. Reductions in the supply of
23 reserves generally do not result in a decrease in
24 excess reserves, but more likely cause some banks to
25 increase their borrowing, which may vary from practically
26 nothing to a billion dollars or more. Reductions in
27 reserves might conceivably lead to credit liquidation,
28 but it is rarely the aim of monetary policy to bring
29 about a contraction of credit, except as an adjustment
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1 from a seasonal or other temporary expansion. Hence,
2 excess reserves by themselves are not a good indicator
3 of changes in the posture of policy.

4 88. The general level of net free or net
5 borrowed reserves prevailing over a period of time
6 provides a measure of the degree of restraint or ease that
7 exists in the money market. The particular level that
8 may be needed to achieve the broader objective of
9 appropriate credit expansion varies from time to time
10 depending on changing economic conditions. Banks
11 are willing to borrow more in times of vigorous
12 credit demands than when demands are slack. The more
13 significant underlying indicator is the amount of
14 credit and monetary expansion that occurs. Hence
15 constant attention must be given to the amounts of
16 required reserves and total reserves outstanding.

17 89. These various reserve data -- or
18 rather, fairly reliable estimates -- are available
19 on a daily basis for the guidance of the Account
20 Management. In fact, estimates or projections of
21 reserve needs and the factors that may affect the
22 reserve supply for days and weeks ahead are constantly
23 being compiled by the Federal Reserve staff so that
24 allowance may be made in current operations for
25 possible variations in the immediate future.

26 90. Secondary liquidity of banks. -- In
27 addition to primary liquidity, as represented positively by
28 the availability of reserves and negatively by bank
29 borrowings, the credit practices of banks are also
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1 secondary liquidity consists of those assets, which
2 ordinarily can be readily liquidated by a bank at
3 close to the book value in order to meet deposit
4 drains or adjust reserve positions. Secondary liquidity
5 is a matter of individual bank initiative and is
6 only indirectly influenced by the Federal Reserve.
7 In our system of thousands of unit banks with continuous
8 and widely varying interbank flows, the holding of some
9 amount of such assets is essential for individual banks.

10 91. Secondary liquidity, however, it must
11 be clearly kept in mind, does not by itself provide
12 the basis for expansion in bank credit. Nor would
13 specific requirements as to holdings of liquid assets,
14 other than primary reserves, necessarily restrict the
15 expansibility of credit. These secondary reserve
16 assets are in themselves a form of bank credit; their
17 acquisition result in the creation of deposits.
18 Secondary reserve requirements, therefore, would
19 exert restraint on total credit expansion only in
20 case the available supply of eligible assets were
21 limited.

22 92. The ultimate limitation on bank credit
23 expansion is the availability of primary reserves.
24 If banks have or could readily obtain primary reserves,
25 they could then acquire the requisite amount of secondary
26 reserve assets (if available in the market). In
27 the process the banking system as a whole would be in
28 a position to expand total credit by multiples of
29 these two sets of reserve holdings. For example, if
30 banks could purchase Treasury bills in the market and



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1 could readily sell a portion of those bills to the
2 central bank to obtain primary reserves, a require-
3 ment as to the maintenance of a specified portion of
4 Treasury bill holdings would not limit total credit
5 expansion.

6 93. In the absence of unlimited access
7 to primary reserves or to secondary reserve assets,
8 a requirement or traditional practice as to holdings
9 of other liquid assets would, to be sure, limit the
10 ability of the banking system to expand loans or
11 other assets. For this reason, the secondary liquidity
12 position of banks sometimes needs to be taken into
13 consideration in determining monetary policies.

14 94. Bank credit and the money supply. --
15 Broader goals or guides for monetary policy are evident
16 in the consequences of changes in reserve availability
17 in affecting the amount of total loans and invest-
18 ments of banks, which result in the creation of the
19 bulk of the cash balances that the public holds. The
20 banking system as a whole differs from other financial
21 institutions in that commercial banks as a group can
22 expand a given supply of reserves into loans and
23 investments and into cash balances amounting to many
24 times the initial amount. At the same time the
25 volume of bank credit and money that can be created is
26 limited by the amount of reserves available relative
27 to the amount required to be held by banks.

28 95. Irrespective of the volume of reserves
29 made available through Federal Reserve initiative,
30 however, banks and borrowers to some extent determine the

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94. Banking System and Monetary Policy

Broader goals or guides for monetary policy are evident in the consequences of changes in reserve availability in affecting the amount of total loans and investments of banks, which result in the creation of the bulk of the cash balances that the public holds. The banking system as a whole differs from other financial institutions in that commercial banks as a group can expand a given supply of reserves into loans and investments and into cash balances amounting to many times the initial amount. At the same time the volume of bank credit and money that can be created is limited by the amount of reserves available relative to the amount required to be held by banks.

95. Irrespective of the volume of reserves made available through Federal Reserve institutions, however, banks and borrowers to some extent determine the



1 amount of bank credit and money that is brought into
2 being. Demands for loans may not be sufficient to
3 utilize all the reserves available, and banks may
4 choose to hold excess reserves rather than acquire
5 investments at prevailing interest rates. This is
6 a rare set of circumstances but it did occur for an
7 extended period in the 1930's. Even currently some
8 banks consistently hold varying amounts of excess
9 reserves. Or, under the pressure of vigorous demands
10 for loans from customers, banks may choose to borrow
11 from the Federal Reserve. When loan demands are
12 strong and persistent, such borrowings in the aggregate
13 may be substantial and prolonged, even though
14 individual banks may quickly get out of debt.

15 96. Since the impact of monetary policy
16 on the economy is transmitted through changes in bank
17 credit and the money supply, it is essential for policy
18 formulation that there be continuous assessment of the
19 adequacy of these magnitudes. This is not an easy task,
20 but it is one that the Federal Reserve, with its power
21 to control the creation of credit and money, must
22 endeavor to perform. Monetary policy decisions must be
23 based upon judgment as to the total amount of bank
24 credit and money that is appropriate at any time. They must
25 take into consideration not only the total volume but
26 also the rate and nature of use of money. The use of
27 money cannot be controlled by the Federal Reserve.

28 97. Policy cannot be directed toward enabling
29 banks to meet all demands for credit, or any particular
30 demand, that might develop under any conditions. This



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97. It is not possible to control the rate at which
banks to meet all demands for credit, or any particular
category of credit, under any conditions.



1 could result in an undue stimulus to spending and
2 investing, which would derive, first, from increased
3 spending growing out of bank credit expansion and,
4 second, from the creation of a redundant money supply,
5 i.e., excessive liquidity.

6 98. In conducting current Federal
7 Reserve operations, estimates or assumptions as to total
8 loans and investments of banks and the money supply
9 underlie the current and projected figures of total
10 reserves and free reserves. Seasonal and other temporary
11 variations in these elements are quite large --
12 amounting to as much as \$5 billion in the course of the
13 year. In conducting operations to carry out the
14 Committee's objectives, the Account Management has to
15 allow for the effect of such movements on reserve
16 needs.

17 99. Since cyclical and growth changes in
18 the money supply and in required reserves are relatively
19 small in any short period of time, during the intervals
20 between meetings of the Committee those operations that
21 carry out broad monetary policy objectives are in-
22 significant relative to those needed to cover purely
23 temporary variations. The essential task is to pre-
24 vent temporary factors affecting reserve availability
25 from interfering with policy goals.

26 100. Expansion or contraction in bank
27 loans and investments has a direct and approximately
28 equal impact on the public's holdings of cash --
29 in currency and bank deposits. An important question,
30 both as to practical operations and as to monetary



could result in an undue stimulus to spending and investing, which would derive, first, from increased spending growing out of bank credit expansion and, second, from the creation of a redundant money supply.

98. In conducting current Federal Reserve operations, estimates or assumptions as to total loans and investments of banks and the money supply underlie the current and projected figures of total reserves and free reserves. Seasonal and other temporary variations in these elements are quite large -- amounting to as much as \$5 billion in the course of the year. In conducting operations to carry out the Committee's objectives, the Account Management has to allow for the effect of such movements on reserves.

99. Since cyclical and growth changes in the money supply and in required reserves are relatively small in any short period of time, during the intervals between meetings of the Committee those operations that carry out broad monetary policy objectives are in-adequate relative to those needed to cover merely temporary variations. The essential task is to prevent temporary factors affecting reserve availability from interfering with policy goals.

100. Expansion or contraction in bank loans and investments has a direct and approximately equal impact on the public's holdings of cash -- in currency and bank deposits. An important question both as to practical operations and as to monetary



1 theory, relates to what definition of the money supply
2 may be considered appropriate for purposes of monetary
3 regulation. Or, perhaps more correctly stated, what
4 weight should be given to the various components of
5 the whole spectrum of liquid assets held by the public
6 in affecting the volume of economic activity.

7 101. Currency -- including notes and coin --
8 is of considerable importance from the standpoint of
9 monetary policy because changes in the volume in
10 circulation outside of banks has a direct one-for-one
11 effect on the volume of bank reserves. In the United
12 States, however, the volume of currency in circulation
13 amounts to less than a third of that of demand
14 deposits held by the public and no doubt is used for
15 a smaller proportion of all monetary transactions
16 relative to checks drawn on deposits.

17 102. Demand deposits are the most important
18 component of the money supply. Under a fractional
19 reserve system, they are also more expansible on the
20 basis of a given amount of reserves. Interbank deposits
21 may be excluded because they represent duplication.
22 United States Government deposits in commercial
23 banks, even though they reflect bank credit extension,
24 are generally not included in measures of the money
25 supply. This rather arbitrary practice is partly
26 because such funds may be viewed as for the time with-
27 drawn from influence on spending decision but more
28 particularly because such deposits are subject to
29 wide and erratic variations that do not reflect changes
30

theory, relates to what definition of the money supply is to be used. It is important to recognize that the weight should be given to the various components of the whole spectrum of liquid assets held by the public in effecting the volume of economic activity.

101. Currency -- including notes and coin -- is of considerable importance from the standpoint of monetary policy because changes in the volume in circulation have a direct effect on the volume of bank reserves. In the United States, however, the volume of currency in circulation amounts to less than a third of that of demand deposits held by the public and no doubt is used for a smaller proportion of all monetary transactions relative to checks drawn on deposits.

102. Demand deposits are the most important component of the money supply. Under a fractional reserve system, they are also more expandable on the basis of a given amount of reserves. Interbank deposits may be excluded because they represent duplication. United States Government deposits in commercial banks are usually excluded from the money supply because such funds may be viewed as for the time being withdrawn from influence on spending decisions but more particularly because such deposits are subject to wide and erratic variations that do not reflect changes



1 in money available to the public at the time.

2 103. Treatment of time deposits at
3 commercial banks raises difficult questions. Their
4 significance has varied from time to time as banks
5 have followed different practices with respect to the
6 attraction of such deposits and their potential
7 liquidity. Principally they are no doubt merely a
8 form of savings and a store of value with little current
9 economic impact. To some extent, however, they are
10 substitutes for other forms of money holdings and
11 influence the spending decisions of money holders.
12 They are reflected in the total volume of bank credit
13 and also, to a smaller degree than demand deposits,
14 in reserve needs. Hence they must be taken into con-
15 sideration in determining monetary policies, but should
16 not be viewed as identical on a dollar-for-dollar basis
17 with demand deposits. The significance of holdings of
18 other types of liquid assets is discussed in a later
19 section.

20 104. Velocity of money. -- Whereas changes in
21 the volume of money are influenced in part by decisions
22 of borrowers and in part by those of banks and the
23 Federal Reserve, changes in the use of money result
24 principally from the decisions of borrowers, of holders
25 of money, of spenders, and of nonbank lenders. From
26 the standpoint of performance of the economy, it is
27 not the holding of money but the use of money that
28 counts. Amounts held, to be sure, may influence
29 decisions as to the use of money. If new money created
30 keeps moving to holders who do not want to hold more

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commercial banks raises difficult questions. Their significance has varied from time to time as banks have followed different practices with respect to the attraction of such deposits and their potential liquidity. Principally they are no doubt merely a form of savings and a store of value with little or no economic impact. To some extent, however, they are substitutes for other forms of money holdings and influence the spending decisions of money holders. They are reflected in the total volume of bank deposits and also, to a smaller degree than demand deposits, in reserve needs. Hence they must be taken into consideration in determining monetary policy, but should not be viewed as identical on a dollar-for-dollar basis with demand deposits. The significance of holding of other types of liquid assets is discussed in a later section.

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1 cash, the flow and the turnover of money can expand
2 rapidly. Experience shows that the rate of use or
3 velocity of money varies significantly over short
4 periods of time, as well as over long periods.

5 105. Monetary policy decisions, therefore,
6 must take into consideration variations in monetary
7 turnover. These variations are in essence a
8 reflection of the great variety of elements that
9 comprise economic activity and determine stability or
10 instability in prices, the degree of resource
11 utilization, and the rate of economic growth, i.e.,
12 the broad, ultimate objectives of policy. Variations
13 in monetary turnover are related to changes in non-
14 bank credit, in elements of liquidity other than money,
15 and in interest rates, which are discussed in sub-
16 sequent sections.

17 106. Nonbank credit. -- As already mentioned,
18 monetary policy is more or less limited in the scope
19 of its direct influence. It operates primarily through
20 the channel of bank credit, which constitutes a relatively
21 small portion of total credit and the total flow of
22 funds. Over the past decade net annual increases
23 in total credit and equity market instruments in the
24 United States, as measured by the Federal Reserve
25 compilation of flows-of-funds accounts, have generally
26 been between \$30 billion and \$60 billion -- perhaps
27 \$50 billion or somewhat more would be a normal average
28 at present.

29 107. In the same period the amount of
30 credit supplied by the banking system to provide for



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106. Monetary policy is more or less limited in the scope of its direct influence. It operates primarily through the channel of bank credit, which constitutes a relatively small portion of total credit and the total flow of funds. Over the past decade net annual increases in total credit and equity market instruments in the United States, as measured by the Federal Reserve, have generally been between \$30 billion and \$50 billion -- perhaps \$50 billion or somewhat more would be a normal average at present.

107. In the same period the amount of credit supplied by the banking system to provide for



1 an increase in the money supply, narrowly defined to
2 include only demand deposits and currency, has
3 averaged less than \$3 billion a year, with variations
4 from small decreases in some periods to yearly
5 increases of over \$5 billion. Commercial bank time
6 deposits have increased fairly steadily at an average
7 rate of close to \$4 billion, and the increase in bank
8 capital has averaged a little over \$1 billion a year.
9 Thus the total amount of credit created by or channeled
10 through the commercial banking system has averaged
11 about \$8 billion a year -- or around one-sixth of the
12 average for all credit flows -- and has seldom
13 exceeded \$15 billion.

14 108. Therefore, as the Board points out
15 in its Commission on Money and Credit answer,

16 "Flows of other funds -- evolved over time
17 from accumulated savings and outside the
18 control of the banking system -- are of much
19 greater magnitude and generally of greater
20 influence in determining the course of the
21 economy than are those deriving from changes
22 in the volume of bank credit. The ultimate
23 flows of all these funds into particular uses
24 are beyond the direct control of the Federal
25 Reserve. Nevertheless, changes in the
26 availability of bank credit have a marginal
27 influence upon money flows and upon interest
28 rates that, if not properly controlled,
29 can affect economic stability adversely."

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can affect economic stability adversely."



1 109. General liquidity. -- A related reason
2 why Federal Reserve policy decisions cannot be made
3 solely in terms of money supply goals is that
4 economic decisions are influenced by all elements
5 of liquidity, including holdings of other assets as
6 well as of money balances. Decisions of spenders
7 and lenders are likely to be influenced by the
8 degree of their liquidity existing at any point in
9 time and by variations in their liquidity over time.

10 110. Particular actions available to the
11 Federal Reserve to restrict holdings of assets other
12 than cash balances are limited. Yet sharp increases
13 in time deposits at commercial banks that followed
14 the recent raising of ceilings on interest payable
15 by banks on such deposits indicate that variations
16 in these rates can influence the volume of time
17 deposits at commercial banks. The long-run effect
18 on total liquidity, however, and in spending decisions
19 remains to be seen.

20 111. Expansibility of non-cash liquid assets
21 over any short period of time is limited, as long
22 as money supply expansion is restrained. They must
23 come out of current savings or shifts from less liquid
24 assets. Moreover, available evidence indicates that
25 the rates of turnover or withdrawals of such assets --
26 except perhaps for transactions of a primarily
27 financial nature -- are very small fractions of the
28 velocity of demand deposits.

29 112. Treasury bills, and to a lesser degree
30 other short-term Government securities, serve as one

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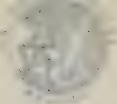
other short-term Government securities, serve as one

1 of the most active types of nonbank liquid assets.
2 In effect, the available supply of Treasury bills
3 can be determined by Treasury debt management
4 operations, if their influence on general liquidity
5 is deemed of sufficient importance. When the Federal
6 Reserve rigidly supported the prices of Government
7 securities, all types of Government securities had the
8 liquidity aspects of cash balances and even more
9 because they could create high-powered bank reserves.
10 Federal Reserve operations in Government securities
11 must always be conducted mainly with a view to
12 their effects on general liquidity, as well as on bank
13 reserves.

14 113. The relationship of nonbank lending,
15 capital markets and general liquidity to bank credit
16 and money and to monetary policy was well described
17 by Riefler in his memorandum to the Radcliffe Commission,
18 as follows.^{2/}

19 "101. One way of looking at economic
20 stabilization policies -- through the central
21 bank or through fiscal policies -- is as an effort
22 to maintain equality between total investment
23 outlays and the amount of voluntary saving that
24 corresponds with a high employment level of
25 income at stable prices. In its ability to

26
27 ^{2/} The paragraph numbers in the quoted material are
28 those appearing in the memorandum as published
29 by the Radcliffe Commission.
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exert a major influence over the total of commercial bank loans and investments the central bank may be regarded as playing a key role in the saving-investment relationship. Monetary policy aims both to restrain investment outlays and to encourage saving at times of inflation when such outlays are tending to press unduly against the flow of voluntary saving. In recession, monetary policy encourages investment by promoting spending and by supplementing the flow of loanable funds emanating from savers.

"102. In this respect the commercial banking system, over which the central bank has its direct influence, differs from other financial institutions. The other institutions act mainly to gather and lend savings. They are unable to lend more than savers have decided to place with them. Furthermore, they are unlikely to lend appreciably less than they receive; that is, in usual circumstances they do not accumulate idle balances. Hence, these institutions play a neutral role in the saving-investment balance. They perform the important function of passing on savings to those undertaking capital formation. As long as they perform this function and do not accumulate idle balances, they are not in a position either to disturb the balance or to restore an imbalance

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1 " between saving and investment.

2 "103. This distinction between commercial
3 banks and other financial institutions is a
4 crucial one. It springs from the fact that
5 commercial banks, in contrast to other lending
6 institutions, can expand or contract credit
7 on their own initiative without bidding prior
8 savings from the public. When such credit
9 expansion exceeds the amounts the public wishes
10 to retain in the form of money balances, it will
11 use these balances in a way that will tend
12 to lower interest rates or finance investment
13 directly. Restriction on bank credit expansion
14 to a rate less rapid than the public wishes
15 to increase its money balances will lead the
16 public to reduce investment and increase saving
17 in an effort to establish the desired level of
18 money balances.

19 "104. Interest rate adjustments with their
20 concomitant and opposite effects on capital
21 values are an integral part of this adjustment
22 process. They decline when the public seeks
23 to convert redundant money balances into other
24 assets and rise when the public seeks to build
25 up money balances.

26 "105. These interest rate and capital
27 value movements, in turn, have pervasive
28 incentive and disincentive influences on
29 investment activity and on saving. These
30 effects spread throughout the financial mechanism.

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2-4. Investment and saving are not identical.

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1 " For example, rising bond values enhance the
2 liquidity as well as the immediate purchasing
3 power of holders and conversely, declining
4 bond values reduce both liquidity and immediate
5 purchasing power. There are few nonbank
6 financial institutions or trade or industrial
7 enterprises that are sheltered from changing
8 interest rates and capital values. In an
9 economy relying on private initiative and
10 enterprise, this is a direct and powerful
11 regulator of the general state of liquidity.

12 "106. The existing liquidity of the
13 banking system and of the economy will, of
14 course, affect the promptness of the
15 response to any given degree of monetary
16 restraint. For instance, when liquidity is
17 high, including both excess cash balances on
18 the part of the public and excess holdings
19 of liquid assets on the part of banks,
20 individual banks that are faced with strong
21 loan demands are likely to react to a reduction
22 of reserves by selling Government securities
23 in order to acquire the funds to expand loans.
24 In this case, restraint on the availability of
25 reserves will not have an immediate braking
26 effect on inflationary spending. Even if the
27 money supply should contract when the Govern-
28 ment securities that banks dispose of are
29 taken up by other investors, expenditures
30 will not be immediately affected if investors

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1 " substitute securities for holdings of cash.
2 In summary, when the economy is overly liquid,
3 the initial response to monetary restraint
4 may lead banks to substitute in their port-
5 folios private loans for Government securities,
6 while nonbank investors substitute Government
7 securities, acquired from the banks, for cash
8 balances.

9 "107. This does not mean, however,
10 that the policy of restraint is nullified
11 when liquidity is high. It implies, rather,
12 that more restraint is required than would
13 otherwise be necessary. Also, other measures
14 to reduce liquidity may be called for, such
15 as funding public debt in order to reduce
16 the availability of short-term Government
17 securities as substitutes for cash. In any
18 case, the imposition of restraint does help
19 to restore balance since the overly liquid
20 positions both of the banks and of the public,
21 which are the cause of the trouble, are reduced.
22 Both the banks and the public acquire assets
23 that they regard as less liquid than those
24 they give up."

25 114. In line with the above analysis,
26 the Board's view as to the relation of general liquidity
27 to monetary policy is explained in its Commission on
28 Money and Credit answer as follows:

29 "An increase in noncash liquidity outside the
30 banking system is not necessarily a hindrance to

substitute securities for holdings of cash.
In summary, when the economy is overly liquid,
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may lead banks to substitute in their portfolios private loans for government securities, while nonbank investors substitute government securities, acquired from the banks, for cash balances.
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11A. In line with the above analysis, the Board's view as to the relation of general liquidity to monetary policy is explained in the Commission on Money and Credit answer as follows:
"An increase in noncash liquidity curtails the banking system is not necessarily a narrowing of



1 " or a limitation on the effectiveness of
2 monetary policies. It may imply merely that
3 the public wishes to hold such assets rather
4 than idle cash balances. Or it may, under
5 some conditions, imply that more restraint is
6 required than would otherwise be necessary
7 upon the creation of additional money through
8 bank credit expansion. To the extent that credit
9 demands are being met through the borrowing
10 of savings other than through the banking
11 system there is less need for bank credit
12 expansion. Such expansion might add excessively
13 to the volume of cash balances.

14 If nonbank holders desire to shift from
15 other liquid assets to money, monetary policy
16 should be designed to discourage or facilitate
17 such shifts, according to the prevailing
18 state of economic activity. If there are
19 pressures on resources, the creation of
20 additional money is restrained and holders of
21 assets desiring to obtain cash have to find
22 buyers other than banks. In periods of slack in
23 economic activity, on the other hand, monetary
24 policy attempts to increase general liquidity
25 by making reserves more readily available to
26 banks, and through this to encourage expansion
27 in bank credit and the money supply.

28 In essence, it may be said that Federal Reserve
29 policies influence general liquidity by
30 influencing the availability of money, rather



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1 " than by attempting any direct regulation of
2 nonbank holdings of other types of liquid
3 assets."

4 115. Interest rates. -- To a limited
5 extent, the impact of Federal Reserve policies on
6 the economy is effected through interest rates.
7 In General, monetary policy actions influence
8 interest rates through changes in the availability
9 of credit and the supply of money and through
10 market expectations, but other elements of supply
11 and particularly variations -- actual or anticipated --
12 in the demand for credit and money are the more
13 important determinants of the level and structure of
14 interest rates.

15 116. On the role of interest rates and
16 their relation to monetary policy, the Board in its
17 Commission on Money and Credit answers made the
18 following statement:

19 " Interest rates serve as an essential
20 allocator of resources in the whole process
21 of saving and investment, and in the day-to-
22 day functioning of the money and credit system.
23 Changes in interest rates and concomitant changes
24 in bond prices have pervasive influences on
25 incentives to invest and save. Individuals,
26 businesses, and financial institutions, as
27 borrowers or investors, are all likely to be
28 affected in some degree by changes in the
29 cost of borrowing money or in the capital
30 value of their financial assets. Since the

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115. General Statement

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1 " impact of changes in interest rates on borrowing
2 costs and capital values ultimately influences
3 spending and saving decisions, monetary policy
4 by influencing interest rates can have an effect
5 on these decisions.

6 The level and structure of interest rates
7 prevailing in credit and capital markets at any
8 given time reflect a complex interplay of
9 demand and supply forces. Credit and monetary
10 policy, which affects primarily the quantity
11 of bank reserves and in turn the volume of
12 bank credit and the money supply, functions
13 as only one supply factor in interest rate
14 determination. The great bulk of the supply
15 of funds available for lending arises from
16 the savings of the public -- past and current;
17 bank credit usually comprises only a small
18 portion of the total. It is often a marginal
19 factor, the importance of which may vary
20 according to the state and composition of
21 economic activity and expectations."

22 117. Monetary policy operations cannot
23 at will determine the level or pattern of interest
24 rates. Attempt to do so in a period of vigorous
25 demands, for example, would involve satisfying
26 all demands for credit and money, or at least
27 all demands in some particular sector, regardless
28 of real needs relative to resource utilization.
29 This would aggravate tendencies toward rising
30 prices and create inflationary developments. In

Impact of changes in interest rates on borrowing costs and capital values ultimately influences spending and saving decisions, monetary policy by influencing interest rates can have an effect on these decisions.

The level and structure of interest rates prevailing in credit and capital markets at any given time reflect a complex interplay of demand and supply forces. Credit and monetary policy, which affects primarily the quantity of bank reserves and in turn the volume of bank credit and the money supply, functions as only one supply factor in interest rate determination. The great bulk of the supply of funds available for lending arises from the savings of the public -- pass and current bank credit usually comprises only a small portion of the total. It is often a marginal factor, the importance of which may vary according to the state and composition of economic activity and expectations.

117. Monetary policy operations cannot

at will determine the level or pattern of interest rates. Attempt to do so in a period of vigorous demands, for example, would involve satisfying all demands for credit and money, or at least all demands in some particular sector, regardless of real needs relative to resource utilization. This would aggravate tendencies toward rising prices and create inflationary developments. In



1 the end, the forces of inflation either would bring
2 about higher interest rates or would lead to a
3 collapse of the economy.

4 118. Conversely, attempts to maintain too
5 high a level of rates in a declining or slack
6 economy could unduly stimulate saving and retard
7 consumption and investment. Yet, arbitrarily
8 pushing rates down by pumping out more money than
9 the economy is willing to use at that time can, in
10 a world of convertible currencies, lead to balance-of-
11 payments difficulties without serving a useful domestic
12 purpose.

13 119. In order to minimize the direct
14 impact on markets of its sizable day-to-day transactions,
15 the Federal Reserve generally conducts the bulk of
16 its open market operations in short-term securities,
17 the market for which is much broader than markets
18 for longer issues. But operations in any maturity
19 area of the market necessarily affect other areas.
20 Flexible, though not always complete, adjustment by
21 borrowers and lenders to changing market conditions
22 is an important characteristic of responsive credit
23 markets. This flexibility limits the extent to which
24 the structure of rates can be altered through public
25 policy. For instance, if short rates remain high,
26 there are limits to how far long rates can fall:
27 borrowers will come to prefer long-term instruments
28 and lenders short-term with the result that long-term
29 rates will tend to remain high relative to short.
30 In general, changes in the relative supplies of

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In general, changes in the relative supplies of



1 securities are only one of many influences on the
2 structure of rates. These other factors include
3 variations in types of borrowing demands, changes in
4 liquidity desires, other shifts in institutional
5 demands for particular types and maturities of
6 securities or other open market paper, and
7 expectations as to future changes in the level of rates.

8 120. For these reasons, Federal Reserve
9 policy actions are generally focused on the volume
10 and availability of bank reserves and the adequacy
11 of bank credit and the money supply, rather than on
12 any particular level or pattern of interest rates.
13 In general, Federal Reserve operations are so con-
14 ducted as to minimize their influence on the structure
15 or pattern of rates. It is believed desirable that
16 basic changes in the saving/investment relationship
17 and variations in demand and supply among different
18 segments of the market be reflected in changing
19 levels and structures of interest rates.

20 121. Interest rate developments in the
21 money market, however, serve as an important guide
22 to System operations. Fluctuations in sensitive
23 money market rates on a day-to-day or week-to-week
24 basis furnish the Account Management with a delicately
25 attuned signal of market forces and a guide for
26 timing of operations -- often before other information
27 is available indicating a need for changes in reserve
28 availability. Therefore, the Account Management
29 watches with great care short-term variations in
30 money rates.

securities are only one of many influences on the structure of rates. These other factors include variations in types of borrowing demands, changes in liquidity desires, other shifts in institutional preferences for certain types of securities, and

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policy actions are generally focused on the volume and availability of bank reserves and the ability of bank credit and the money supply, rather than on any particular level or pattern of interest rates. In general, Federal Reserve operations are so conducted as to stabilize the money market, rather than to stabilize the level of rates. It is believed desirable that basic changes in the saving-investment relationship and variations in demand and supply occur throughout segments of the market be reflected in changes in levels and structures of interest rates.

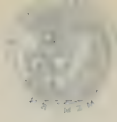
121. Interest rate developments in the

money market, however, serve as an important guide to system operations. Fluctuations in the money market rates on a day-to-day or week-to-week basis furnish the Account Management with a relatively accurate signal of market forces and a guide for timing of operations -- often before other indicators are available indicating a need for changes in reserves. The Federal Reserve closely watches with great care short-term variations in



1 122. Under some circumstances Federal
2 Reserve operations may for limited periods be
3 purposefully directed toward cushioning supply
4 or demand changes tending to affect interest rates
5 in an undesirable manner. The establishment or
6 maintenance of a particular level of rates may then
7 be a specific goal. This may be done, for example,
8 during a period of Treasury financing or when some
9 seasonal or similar temporary influence seems to be
10 affecting rates to an excessive degree.

11 123. International movements of funds
12 that can be attributed to interest rate considerations
13 may call for policies aimed at influencing interest
14 rates, especially if they can be effected without
15 long-run damage to the domestic economy. Under such
16 conditions rather than attempt by monetary policy
17 actions to maintain a domestic level or structure
18 that differs substantially from rates in other
19 countries, interest rates would be permitted to
20 adjust to international conditions. In the past
21 year or more, many countries have discovered -- or
22 rediscovered -- that in a world of convertible
23 currencies, interest rates in one country are
24 strongly influenced by those in other money markets.
25 For example, the Germans and the British have found
26 it necessary to lower rates, and in the United States
27 policy has refrained from permitting a decline in
28 rates that might otherwise have occurred or been
29 considered desirable on the basis of domestic con-
30 siderations.



132. Under some circumstances Federal

Reserve operations may for limited periods be

conducted in a manner which would

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V. International Considerations in

Determination of Federal Reserve Policies

124. During most of the existence of the Federal Reserve System, protection of the balance of international payments of the United States and assurance of convertibility of the dollar at a fixed relationship to gold have not been important considerations in the determination of monetary policy.

125. In 1920 decline in the required gold reserve ratio to near the legal maximum elicited some perturbations and was sometimes given as a reason for restrictive credit policies at the time. More important reasons for the policies adopted, however, were domestic inflationary tendencies, and the situation was quickly reversed. The U.S. gold stock increased in the early 1920's and remained at a high level relative to reserve needs until 1931.

126. In 1931-32, when widespread bank failures led to heavy withdrawals of deposits from banks in the form of currency, certain legal restrictions as to collateral backing Federal Reserve notes and the need to pledge gold for this purpose led to some questioning as to the adequacy of the gold stock. This technical problem was solved by a change in the law permitting Federal Reserve Banks to pledge U.S. Government securities as collateral for Federal Reserve notes.

127. Continuation of bank failures, however, together with uncertainty as to Governmental policies that might be adopted to combat depression



1. The Federal Reserve System
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124. During most of the existence of the Federal Reserve System, protection of the balance of international payments of the United States and assurance of convertibility of the dollar at a fixed relationship to gold have not been important considerations in the determination of monetary policy.

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127. Continuation of bank failures, however, together with uncertainty as to Governmental policies that might be adopted to combat depression



1 threatened to cause a resumption of gold outflow in
2 early 1933. Measures were then adopted to change the
3 dollar price of gold and restrict gold holdings, along
4 with other measures to bolster confidence in banks.
5 It is questionable whether the reduction in the
6 price of gold served any useful purpose and it may
7 have helped to deepen the depression in other
8 countries.

9 128. Passage of the Gold Reserve Act
10 early in 1934 led to reestablishment of a fixed
11 dollar price of gold. Subsequent world events
12 resulted in a tremendous flow of gold to the United
13 States and an accompanying build-up of bank reserves
14 far beyond current needs. A consequent problem faced
15 at that time was how to adjust to the abundance of
16 gold and bank reserves. This adjustment was eventually
17 effected in part by raising reserve requirements
18 of commercial banks to absorb some of their excess
19 reserves and subsequently in large part by the wartime
20 credit and monetary expansion.

21 129. In 1945, after a moderate decrease
22 in gold reserves and a very large increase in Federal
23 Reserve note and deposit liabilities during the war
24 years, the legal reserve requirement for gold-
25 certificate holdings of the Federal Reserve Banks
26 was reduced to its present level of 25 per cent of
27 such liabilities. The previous requirement had
28 been 40 per cent of Federal Reserve notes outstanding
29 plus 35 per cent of deposit liabilities of the Federal
30 Reserve Banks.

plus 35 per cent of deposit liabilities of the Federal Reserve Banks. The previous requirement had been 40 per cent of Federal Reserve notes outstanding and 35 per cent of the present level of 25 per cent of

years, the legal reserve requirement for gold reserves and deposits. In 1945, after a moderate increase in gold reserves and a very large increase in Federal Reserve note and deposit liabilities during the war years, the legal reserve requirement for gold reserves and deposits in large part by the no time of commercial banks to absorb some of their excess effected in part by raising reserve requirements gold and bank reserves. This adjustment was eventually at that time was how to adjust to the abundance of far beyond current needs. A consequent problem arose States and an accompanying build-up of bank reserves resulted in a tremendous flow of gold to the United States and an accompanying build-up of bank reserves dollar price of gold. Subsequent world events early in 1934 led to reestablishment of a fixed

128. Passage of the Gold Reserve Act

countries. have helped to deepen the depression in other price of gold served any useful purpose and it may It is questionable whether the reduction in the with other measures to bolster confidence in banks, dollar price of gold and restrict gold holdings, along with 1933. However, when that change is made in



1 130. During most of the life of the
2 Federal Reserve, therefore, monetary policies have been
3 influenced by gold movements only as it was necessary
4 or desirable for domestic purposes to counteract
5 their effect on commercial bank reserves. During
6 recent years, however, particularly since the
7 restoration of convertibility of other leading
8 currencies at the end of 1958, this situation has
9 changed. The United States has had to learn some
10 basic truths about the influence of the international
11 environment on national economic problems and
12 policies -- basic truths that have been pretty
13 familiar to many other countries, though they are
14 sometimes forgotten by some people there as well.

15 131. In particular, the United States
16 is becoming more aware of the fact that the world
17 has for many years been on a reserve currency
18 standard and of problems this situation creates.
19 No longer can monetary and fiscal policies be geared
20 to domestic considerations alone; they must take
21 account of international relationships in the
22 demand and supply and in the pricing both of goods
23 and of capital. Consequently, reviews of the
24 current economic situation in connection with the
25 formulation of policy now include consideration of
26 foreign demand and supply pressures, foreign
27 inventory cycles, international competitive positions,
28 and international demand and supply for capital
29 and bank credit -- as well as consideration of such
30 obviously pressing facts as those about changes in

190. Department of the Interior

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1 our own country's gold and foreign exchange reserves
2 and in its short-term external liabilities, and about
3 the balance of payments that gives rise to these move-
4 ments.

5 132. The balance of payments and monetary
6 policy. -- During the past two years, framing of
7 governmental economic policies, including monetary
8 policy, has faced the task of dealing most effectively
9 with a difficult pair of problems: how to end a
10 persistent balance-of-payments deficit and at the same
11 time to make substantial progress toward reducing
12 underemployment of labor and capital within the
13 country.

14 133. This conjuncture of problems is
15 different from what might be called the typical
16 conjuncture in industrial countries. Somewhat more
17 typical for a period of recession in economic activity
18 is a decline in imports that tends to strengthen a
19 country's balance of payments; while in a boom
20 expanding imports would be expected to be a
21 restraining influence. These combinations are not so
22 difficult to deal with. Even if monetary policy were
23 absolutely neutral throughout, the cyclical imbalance
24 in one direction or the other in the external current
25 account would tend to be offset at least in part by an
26 outflow or an inflow of capital in response to shifts in
27 credit market conditions and in interest rates.

28 134. Reasons for the development of
29 persistent payments deficit, along with an under-
30 employment of resources, through various phases of the

our own country's gold and foreign exchange resources and in the short-term external liabilities, and about the balance of payments that gives rise to these movements.

policy. -- During the past two years, framing of governmental economic policies, including monetary policy, has faced the task of dealing more effectively with a difficult pair of problems: how to end a persistent balance-of-payments deficit and at the same time to make substantial progress toward reducing underemployment of labor and capital within the country.

193. This conjuncture of problems is different from what might be called the typical conjuncture in industrial countries, which is typical for a period of recession in economic activity in a decline in imports that tends to strengthen a country's balance of payments; while in a boom

expanding imports would be expected to be a restraining influence. These combinations are not so difficult to deal with. Even if monetary policy were in one direction or the other in the external account would tend to be offset at least in part by an outflow or an inflow of capital in response to shifts in credit market conditions and in interest rates.

194. Reasons for the development of persistent payments deficits, along with an underemployment of resources, through various phases of the



1 business cycle, are complex. They include: (a)
2 military expenditures abroad and that part of grants
3 and loans for economic aid that does not readily
4 carry along with it a true addition to exports of
5 goods and services; and (b) shifts in competitive
6 status of private enterprise as costs rose in the
7 United States while Europe was completing its
8 recovery from war-time disruption and entering
9 a new phase of dynamic growth. Prescription for remedies
10 must deal with the problems of our political
11 commitments or the shifting of some of their burden
12 to others, with enhancing competitiveness in export and
13 import markets, and at the same time with making
14 investment and lending in the United States more
15 attractive relative to investment and lending abroad.

16 135. Easy money and an expansionary fiscal
17 policy, which might be desirable as weapons against
18 underemployment, do not help to remove the basic
19 causes of the balance of payments problem. Under
20 existing circumstances, there may even be doubt
21 whether they can be fully effective in reducing under-
22 employment. The underemployment problem results
23 partly from the domestic effects of the overpricing
24 that also causes difficulty in the external balance
25 of payments. Positive deflation of demand, engineered
26 by national financial policies, would not only be
27 entirely unacceptable domestically, but would also
28 work to our disadvantage in the long run in the
29 balance of payments by delaying re-equipment of
30 industry and by discouraging equity investment within

carry along with it a true addition to exports of goods and services; and (b) shifts in composition of status of private enterprise as seen here in the United States while Europe was completing its recovery from the depression of 1929-1932.

a new phase of dynamic growth. Prescription for remedy must deal with the problems of our political economy in the shifting of our economic position to others, with enhancing competitiveness in export and import markets, and at the same time with making investment and lending in the United States more attractive relative to investment and lending abroad.

1932. Easy money and an expansionary fiscal policy, which might be desirable as a response against unemployment, to deal with the causes of the balance of payments problem. Under existing circumstances, there may even be doubt whether they can be truly effective in reducing unemployment. The underemployment problem results partly from the domestic effects of the overvalued dollar that also causes difficulty in the external balance of payments. Monetary deflation or demand reduction by national financial policies would not only be entirely unattractive domestically, but would also work to our disadvantage in the long run in the balance of payments by delaying re-valuation of the dollar and by increasing the unemployment problem.



1 the country as compared with investment abroad.

2 136. Some of the important factors under-
3 lying the present balance-of-payments situation in
4 the United States lie outside the realm of monetary
5 policies. Under these circumstances, monetary -- and
6 also fiscal -- policies have to be based on a
7 delicate balance of domestic and international
8 considerations, until fundamental adjustments
9 essential for the restoration and maintenance of
10 international balance can be effected.

11 137. Reserve currency status of the U.S.
12 dollar -- It is a basic tenet of United States
13 monetary administration that the value of the dollar
14 be maintained at a fixed relationship to gold. This
15 is considered desirable partly because of the belief
16 that international adjustments in demand and supply
17 relationships can be made more effectively through
18 individual markets than through attempts to make
19 or permit alterations in exchange rates that would be
20 reflected in the general level of prices and costs
21 in one country relative to those in other countries.
22 Such over-all alterations can lead to the creation
23 of other maladjustments and upsets to the world
24 economy. If promptly accompanied by corresponding
25 changes in the value of other currencies no purpose
26 is achieved by the action.

27 138. Another reason of immense practical
28 importance for maintaining a fixed value of the U.S.
29 dollar in terms of gold is that the dollar serves as
30 what is undoubtedly an essential complement to gold



186. Some of the important factors underlying the present balance-of-payments situation in the United States lie outside the realm of monetary policy. Under these circumstances, monetary -- and also fiscal -- policies have to be based on a delicate balance of domestic and international considerations. Well-conducted monetary policy is essential for the restoration and maintenance of international balance can be effected.

187. Reserve currency status of the U.S.

Dollar -- It is a basic tenet of United States monetary administration that the value of the dollar be maintained at a fixed relationship to gold. This is considered feasible partly because of the belief that international adjustments in demand and supply relationships can be made more effectively through individual markets than through attempts to make or permit alterations in exchange rates that would be reflected in the general level of prices and costs in one country relative to those in other countries. Such overall alterations can lead to the creation of other maladjustments and upsets to the world economy. It is greatly accompanied by corresponding changes in the value of other currencies no purpose is achieved by the action.

188. Another reason of immense practical importance for maintaining a fixed value of the U.S. dollar in terms of gold is that the dollar serves as what is undoubtedly an essential complement to gold



1 in providing a basic international means of exchange
2 and store of value. In the present world of currency
3 convertibility, a reserve currency country cannot
4 consider devaluing its currency through a once-for-all
5 unilateral alteration of its valuation in terms of
6 gold or other currencies. A country with very large
7 short-term liabilities to foreigners simply cannot
8 risk the permanent destruction of confidence in the
9 value of its currency relative to others that such
10 a step might entail. To take this risk would be to
11 risk creating pressures for new outflows amounting to
12 billions of dollars over a period of years.

13 139. This position carries the immediate
14 corollary that for a reserve currency country faced
15 with the combination of underemployment and a
16 payments deficit to use a fluctuating rate in an
17 attempt to avoid domestic restraints or adjustments
18 would be even more inappropriate and would worsen
19 the basic difficulties. In such an event the rate
20 could only depreciate. Uncertainties as to how far
21 the depreciation might go -- if indeed the country
22 were to persist in letting the rate fluctuate --
23 would make all the more likely an irretrievable
24 destruction of confidence in that currency.

25 140. A reserve currency country cannot
26 escape in any way the necessity of improving or
27 maintaining its competitive position (at any given
28 exchange rate). Nor can it avoid the simultaneous
29 necessity of making capital investment in its country--
30 at short-term and at long-term -- sufficiently attractive



the possibility of a sudden international demand for dollars
and the risk of a sudden fall in the price of gold.

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1 relative to capital investment elsewhere so as to
2 prevent either a loss of reserves or pressure on a
3 free rate. To shift the impact of a deficit from
4 reserves to the rate does not alter the problem in
5 its totality. Giving instability of value to a
6 reserve currency would have adverse effects on
7 capital movements and on foreigners' desires to go
8 on using the reserve currency that might far out-
9 weigh any benefits of depreciation for the country's
10 international trade. Reserves might no longer fall,
11 but depreciation of the currency would gain
12 momentum. The constraints on domestic policy would
13 become stronger than ever.

14 141. International reserve liquidity. --

15 Related to the question of the role of an international
16 reserve currency is the subject of international
17 reserve liquidity. In a broad sense, matters of the
18 size and distribution of international reserve
19 liquidity differ little from those of the balances
20 of payments of individual countries. With regard
21 to the distribution of reserves, for the great
22 majority of countries the amount of reserves any one
23 of them holds depends principally on that country's
24 structural characteristics, its own policies affecting
25 its balance of payments, and its own policies with
26 regard to the size of the reserve cushion it believes
27 it can afford to keep.

28 142. International liquidity becomes a
29 concept with life of its own only when: (a) there is
30 a question of large withdrawals of liquidity from the



1 pool of reserves available to others by large countries
2 running balance-of-payments surpluses, or (b) there
3 is a question either of the willingness of a reserve
4 country to continue supplying additional reserves
5 through its balance-of-payments deficit or of the
6 continuing acceptability of its currency by others for
7 their reserves.

8 143. Defined in these ways, the inter-
9 national liquidity "problem" has not been an acute
10 and immediate problem for the world in general at any
11 time in the postwar period. It is true that several
12 Continental European countries have had large
13 surpluses in recent years, and these have been the main
14 counterpart of the deficits of the two reserve currency
15 countries. But it would be difficult to establish a
16 case that this situation has added in any significant
17 way to whatever difficulties any one of the great
18 majority of smaller countries may have had in
19 obtaining and retaining whatever volume of reserves
20 it aimed at.

21 144. Somewhat greater consciousness of
22 difficulties with international reserve liquidity
23 that might arise in the future has developed in
24 recent years. There have been proposals for alternative
25 standards or ways of providing the world with
26 additional reserves. These proposals, however, do
27 not dispose of serious fundamental problems; they
28 merely change the form of those problems.

29 145. The main disturbing elements in
30 international trade and finance will always be the large



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additional reserves. These proposals, however, do

not dispose of serious fundamental problems; they

merely change the form of those problems.

145. The main disturbing elements in

international trade and finance will always be the



1 variations that tend to occur in the international
2 transactions of the larger industrial countries, in-
3 cluding the reserve currency countries. These
4 variations will persist irrespective of the currency
5 standard that may be used. So long as U.S. and U.K.
6 private exporters and lenders continue to prefer to
7 be paid in U.S. dollars and sterling, respectively,
8 foreign private traders and borrowers will continue
9 to need and to keep balances in U.S. dollars and
10 sterling. The possibilities that now exist of sudden
11 shifts in private holdings from one currency into
12 another, causing sudden, large movements of reserves,
13 would still exist under any other fixed-exchange
14 standard.

15 146. Any need for a workable alternative
16 to the reserve currency standard would arise from
17 the attitudes and practices of governments with
18 respect to exchange rates and of central banks with
19 respect to the nature of their reserve holdings.
20 But any international reserve standard other than
21 gold would encounter policy problems regarding rates
22 of addition to the liabilities and composition
23 of the assets of the international monetary institution
24 that would administer the reserves. The problems would
25 be analogous to the similar problems that now face the
26 reserve currency countries. No standard will work
27 in the long run unless all major central banks agree
28 to forego once and for all the chance of keeping all
29 their reserves in the form of gold.

30 147. Under the present standard or any other,



variations that tend to occur in the international

monetary system, and to the extent that such variations

may be caused by fluctuations in the exchange rates

variations will persist irrespective of the currency

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standard.

140. Any need for a workable alternative

to one reserve currency standard would arise from

the attitudes and practices of governments with

respect to exchange rates and of central banks with

respect to the nature of their reserve holdings.

But any international reserve standard other than

gold would encounter policy problems regarding rates

of addition to the liabilities and composition

of the assets of the international monetary institution

that would administer the reserves. The problems would

be analogous to the similar problems that now face the

reserve currency countries. No standard will work

in the long run unless all major central banks agree

to forgo once and for all the chance of keeping all

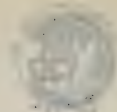
their reserves in the form of gold.

141. Under the present standard or any other



1 the balance-of-payments problems of the present reserve
2 currency countries are going to have to be solved.
3 This requires internationally cooperative behavior
4 on the part of all major countries. This cooperation
5 has already begun, with the recognition of inter-
6 national responsibilities that is implicit in a
7 country's membership in the International Monetary
8 Fund or the Organization for Economic Cooperation and
9 Development. As the balance-of-payments deficit of
10 the United States becomes more controllable, and as
11 the attitudes of international cooperation are
12 strengthened, the long-run problem of international
13 reserve liquidity will look much easier to deal with
14 in one way or another than it may now seem.

15 148. Last February, the Federal Open
16 Market Committee authorized the Federal Reserve Bank of
17 New York to engage in open market operations in
18 convertible currencies widely used in international
19 transactions, and to negotiate agreements with
20 foreign central banks regarding the establishment of
21 reciprocal balances in such currencies. These
22 measures are mainly designed to help defend the dollar,
23 if necessary, against temporary disturbances in
24 exchange markets and against the effects of large
25 sudden movements of volatile funds. But from a
26 longer-run point of view, they may also be used to
27 help avert any danger of international illiquidity,
28 if that danger should ever become imminent.
29 Establishment of reciprocal balances in internationally
30 used convertible currencies could help to banish



...of the present reserve
...are going to have to be solved.
...information is available
on the part of all major countries. This cooperation
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...the world
...the world
...the world
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foreign central banks regarding the establishment of
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measures are mainly designed to help defend the dollar
if necessary, against temporary disturbances in
exchange markets and against the effects of large
longer-run shifts of view, they may also be used to
help avert any danger of international liquidity
if that danger should ever become imminent.

Establishment of reciprocal balances in internationally
used convertible currencies could help to bring



1 fears of a world-wide deficiency in international
2 reserves, without requiring new international
3 institutions or upsetting the existing mechanism
4 of international payments.



VI. Organization and Executive Personnel of
the Federal Reserve System*

149. The organization of the Federal Reserve System has sometimes been compared to a pyramid which has as its base the grassroots of the American economy represented by the 6,100 member banks in every state in the Union. The apex of this pyramid is represented by the Board of Governors in Washington. In between the base and its peak are the 12 Federal Reserve Banks and their 24 branches that provide a unique regional concept among the central banks of the world.

Role of the Federal Reserve Board

150. The Federal Reserve Act presently provides for a board of seven members appointed by the President of the United States and confirmed by the Senate. Board members serve for terms of 14 years with terms so arranged that one expires every two years. If a member has served a full term he is ineligible for reappointment. However, if he has been appointed to an unexpired portion of one of the 14-year terms, he may be reappointed to a full term. Members can be removed from office by the President only for cause.

151. The law requires that the President shall designate a Chairman and Vice Chairman from the membership of the Board "to serve as such for a period of four

* This section was prepared by Clarke L. Fauver,
Assistant to the Board of Governors of the
Federal Reserve System.



VI. Organization and Function of the Federal Reserve System

149. The Organization of the Federal Reserve System

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Role of the Federal Reserve Board

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* This section was prepared by Charles E. Sawyer,

Assistant to the Board of Governors of the

Federal Reserve System.



1 years." A possible purpose of this provision in the
2 Banking Act of 1935 was to afford a new President the
3 opportunity to designate a Chairman and Vice Chairman
4 of the Board. This objective, however, has not been
5 accomplished in practice. Even the first appointments
6 after this provision was adopted in 1935 were not made
7 so that they would coincide with the term for which a
8 President was elected. Subsequent appointments, based
9 either on the expiration of a term or resignation,
10 have not furthered the achievement of this goal.

11 152. When originally adopted in 1913, the
12 Act provided for five regular members on the Board
13 and for the Secretary of the Treasury and the
14 Comptroller of the Currency to serve as ex officio
15 members. In 1922, one additional member was provided
16 in consequence of a change in qualifications to
17 specify agricultural interests. In 1935, participation
18 by the Secretary of the Treasury and the Comptroller
19 of the Currency was terminated and the membership
20 set at seven regular members.

21 153. Statutory Qualifications. -- Section 10
22 of the Act provides that, "In selecting the members of
23 the Board, not more than one of whom shall be
24 selected from any one Federal Reserve district, the
25 President shall have due regard to a fair representation
26 of the financial, agricultural, industrial and
27 commercial interests, and geographic divisions of
28 the country." The law also provides that no member
29 of the Board of Governors shall be an officer or
30 director of any bank, banking institution, trust company,

...A possible purpose of this provision in the Banking Act of 1935 was to afford a new President the opportunity to designate a Chairman and Vice Chairman of the Board. This objective, however, has not been accomplished in practice. Even the first appointments after this provision was adopted in 1935 were not made so that they would coincide with the term for which a President was elected. Subsequent appointments, based either on the expiration of a term or resignation, have not furnished the achievement of this goal.

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of the Act provides that, "In selecting the members of the Board, not more than one of whom shall be selected from any one Federal Reserve district, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographic divisions of the country." The law also provides that no member of the Board or Governor shall be an officer or director of any bank, banking institution, trust company



1 or Federal Reserve Bank, or hold any stock in any such
2 banking organization. Members must "devote their
3 entire time to the business of the Board."

4 154. Only two changes relative to quali-
5 ficiations for membership on the Board have been made
6 since the Act was originally adopted. Initially, it
7 was provided that at least two members of the Board
8 had to have experience in banking or finance.
9 This stipulation was removed in 1922, and at the
10 same time the elements of representation to be
11 considered were broadened, as indicated above, to
12 include agricultural interests.

13 155. Recruitment. -- There is little, if
14 any, record from which one can draw facts regarding
15 the method of selection, recommendation and
16 consideration given to the appointment of members of
17 the Board. It would appear that much has depended upon
18 the degree of interest taken by the President and the
19 Secretary of the Treasury in such an appointment, and
20 upon the relationship between the President and the
21 incumbent Chairman of the Board at the moment of a
22 vacancy. On some occasions it has been clear that
23 the White House has sought recommendations from the
24 Chairman of the Board for the filling of vacancies
25 and that such recommendations have been carefully
26 considered and acted upon favorably. At other times,
27 it would seem the President has acted upon recommendations
28 from other sources without consulting the Chairman of
29 the Board. Most students of the subject would probably
30 agree, however, that the appointments to the Federal



in Federal Reserve Bank, or held any stock in any such
financial institution. However, the Federal Reserve
Act does not prohibit the holding of such stock.

194. Only two changes relative to qualifications for membership on the Board have been made since the Act was originally adopted. Initially, it was provided that at least two members of the Board had to have experience in banking or finance. This stipulation was removed in 1908, and at the same time the elements of representation to be considered were broadened, as indicated above, to include agricultural interests.

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it would seem the President has acted upon recommendations from other sources without consulting the Chairman of the Board. Most students of the subject would probably agree, however, that the appointments to the Federal



1 Reserve Board have been largely free of partisan
2 political motives.

3 156. Perhaps some clue as to the kind of
4 men sought for appointments to the Board can be found
5 by studying those who have served. Through May 1962,
6 the number of men who have served or are serving on
7 the Board of Governors totals 41, exclusive of the
8 Secretaries of the Treasury and the Comptrollers of
9 the Currency who were ex officio members from 1914 to
10 1936.

11 157. The Board members have been a diverse
12 group.^{1/} Of the 41, the background of 16 was
13 banking (including Federal Reserve or bank supervisory
14 service); of nine, business; of seven, agriculture;
15 of eight, law, education or journalism; and one was
16 a career civil servant. Nine Board members had held
17 major appointive Federal offices before appointed to the
18 Board, but only one had ever served in Congress. Of
19 considerable importance in appointments made to the
20 Board since 1950 has been a record of prior service with the
21 Federal Reserve System. Of 10 new appointments during
22 this period, five had been serving as members of the
23 boards of directors and two were senior officers of
24 Federal Reserve Banks.

25 158. Duties. -- The Board of Governors is

26
27 ^{1/} The analysis in this paragraph is an updating of
28 the tabulations appearing in Federal Reserve Policy
29 Making, G. L. Back, Alfred A. Knopf, Inc., New
30 York, 1950, pp. 277-289.



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158. Notes. -- The Board of Governors is

The analysis in this paragraph is an update of

the tabulations appearing in Federal Reserve Bulletin

Number 1, 1935, and Number 1, 1936.

1935, 1936, 1937, 1938, 1939, 1940, 1941, 1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1956, 1957, 1958, 1959, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 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2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 2681, 2682, 2683, 2684, 2685, 2686, 2687, 2688, 2689, 2690, 2691, 2692, 2693, 2694, 2695, 2696, 2697, 2698, 2699, 2700, 2701, 2702, 2703, 2704, 2705, 2706, 2707, 2708, 2709, 2710, 2711, 2712, 2713, 2714, 2715, 2716, 2717, 2718, 2719, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 2730, 2731, 2732, 2733, 2734, 2735, 2736, 2737, 2738, 2739, 2740, 2741, 2742, 2743, 2744, 2745, 2746, 2747, 2748, 2749, 2750, 2751, 2752, 2753, 2754, 2755, 2756, 2757, 2758, 2759, 2760, 2761, 2762, 2763, 2764, 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2931, 2932, 2933, 2934, 2935, 2936, 2937, 2938, 2939, 2940, 2941, 2942, 2943, 2944, 2945, 2946, 2947, 2948, 2949, 2950, 2951, 2952, 2953, 2954, 2955, 2956, 2957, 2958, 2959, 2960, 2961, 2962, 2963, 2964, 2965, 2966, 2967, 2968, 2969, 2970, 2971, 2972, 2973, 2974, 2975, 2976, 2977, 2978, 2979, 2980, 2981, 2982, 2983, 2984, 2985, 2986, 2987, 2988, 2989, 2990, 2991, 2992, 2993, 2994, 2995, 2996, 2997, 2998, 2999, 3000, 3001, 3002, 3003, 3004, 3005, 3006, 3007, 3008, 3009, 3010, 3011, 3012, 3013, 3014, 3015, 3016, 3017, 3018, 3019, 3020, 3021, 3022, 3023, 3024, 3025, 3026, 3027, 3028, 3029, 3030, 3031, 3032, 3033, 3034, 3035, 3036, 3037, 3038, 3039, 3040, 3041, 3042, 3043, 3044, 3045, 3046, 3047, 3048, 3049, 3050, 3051, 3052, 3053, 3054, 3055, 3056, 3057, 3058, 3059, 3060, 3061, 3062, 3063, 3064, 3065, 3066, 3067, 3068, 3069, 3070, 3071, 3072, 3073, 3074, 3075, 3076, 3077, 3078, 3079, 3080, 3081, 3082, 3083, 3084, 3085, 3086, 3087, 3088, 3089, 3090, 3091, 3092, 3093, 3094, 3095, 3096, 3097, 3098, 3099, 3100, 3101, 3102, 3103, 3104, 3105, 3106, 3107, 3108, 3109, 3110, 3111, 3112, 3113, 3114, 3115, 3116, 3117, 3118, 3119, 3120, 3121, 3122, 3123, 3124, 3125, 3126, 3127, 3128, 3129, 3130, 3131, 3132, 3133, 3134, 3135, 3136, 3137, 3138, 3139, 3140, 3141, 3142, 3143, 3144, 3145, 3146, 3147, 3148, 3149, 3150, 3151, 3152, 3153, 3154, 3155, 3156, 3157, 3158, 3159, 3160, 3161, 3162, 3163, 3164, 3165, 3166, 3167, 3168, 3169, 3170, 3171, 3172, 3173, 3174, 3175, 3176, 3177, 3178, 3179, 3180, 3181, 3182, 3183, 3184, 3185, 3186, 3187, 3188, 3189, 3190, 3191, 3192, 3193, 3194, 3195, 3196, 3197, 3198, 3199, 3200, 3201, 3202, 3203, 3204, 3205, 3206, 3207, 3208, 3209, 3210, 3211, 3212, 3213, 3214, 3215, 3216, 3217, 3218, 3219, 3220, 3221, 3222, 3223, 3224, 3225, 3226, 3227, 3228, 3229, 3230, 3231, 3232, 3233, 3234, 3235, 3236, 3237, 3238, 3239, 3240, 3241, 3242, 3243, 3244, 3245, 3246, 3247, 3248, 3249, 3250, 3251, 3252, 3253, 3254, 3255, 3256, 3257, 3258, 3259, 3260, 3261, 3262, 3263, 3264, 3265, 3266, 3267, 3268, 3269, 3270, 3271, 3272, 3273, 3274, 3275, 3276, 3277, 3278, 3279, 3280, 3281, 3282, 3283, 3284, 3285, 3286, 3287, 3288, 3289, 3290, 3291, 3292, 3293, 3294, 3295, 3296, 3297, 3298, 3299, 3300, 3301, 3302, 3303, 3304, 3305, 3306, 3307, 3308, 3309, 3310, 3311, 3312, 3313, 3314, 3315, 3316, 3317, 3318, 3319, 3320, 3321, 3322, 3323, 3324, 3325, 3326, 3327, 3328, 3329, 3330, 3331, 3332, 3333, 3334, 3335, 3336, 3337, 3338, 3339, 3340, 3341, 3342, 3343, 3344, 3345, 3346, 3347, 3348, 3349, 3350, 3351, 3352, 3353, 3354, 3355, 3356, 3357, 3358, 3359, 3360, 3361, 3362, 3363, 3364, 3365, 3366, 3367, 3368, 3369, 3370, 3371, 3372, 3373, 3374, 3375, 3376, 3377, 3378, 3379, 3380, 3381, 3382, 3383, 3384, 3385, 3386, 3387, 3388, 3389, 3390, 3391, 3392, 3393, 3394, 3395, 3396, 3397, 3398, 3399, 3400, 3401, 3402, 3403, 3404, 3405, 3406, 3407, 3408, 3409, 3410, 3411, 3412, 3413, 3414, 3415, 3416, 3417, 3418, 3419, 3420, 3421, 3422, 3423, 3424, 3425, 3426, 3427, 3428, 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3595, 3596, 3597, 3598, 3599, 3600, 3601, 3602, 3603, 3604, 3605, 3606, 3607, 3608, 3609, 3610, 3611, 3612, 3613, 3614, 3615, 3616, 3617, 3618, 3619, 3620, 3621, 3622, 3623, 3624, 3625, 3626, 3627, 3628, 3629, 3630, 3631, 3632, 3633, 3634, 3635, 3636, 3637, 3638, 3639, 3640, 3641, 3642, 3643, 3644, 3645, 3646, 3647, 3648, 3649, 3650, 3651, 3652, 3653, 3654, 3655, 3656, 3657, 3658, 3659, 3660, 3661, 3662, 3663, 3664, 3665, 3666, 3667, 3668, 3669, 3670, 3671, 3672, 3673, 3674, 3675, 3676, 3677, 3678, 3679, 3680, 3681, 3682, 3683, 3684, 3685, 3686, 3687, 3688, 3689, 3690, 3691, 3692, 3693, 3694, 3695, 3696, 3697, 3698, 3699, 3700, 3701, 3702, 3703, 3704, 3705, 3706, 3707, 3708, 3709, 3710, 3711, 3712, 3713, 3714, 3715, 3716, 3717, 3718, 3719, 3720, 3721, 3722, 3723, 3724, 3725, 3726, 3727, 3728, 3729, 3730, 3731, 3732, 3733, 3734, 3735, 3736, 3737, 3738, 3739, 3740, 3741, 3742, 3743, 3744, 3745, 3746, 3747, 3748, 3749, 3750, 3751, 3752, 3753, 3754, 3755, 3756, 3757, 3758, 3759, 3760, 3761, 3762, 3763, 3764, 3765, 3766, 3767, 3768, 3769, 3770, 3771, 3772, 3773, 3774, 3775, 3776, 3777, 3778, 3779, 3780, 3781, 3782, 3783, 3784, 3785,



1 essentially a policy-making and supervisory body and
2 has virtually none of the operating functions common
3 to central banks. The operating functions of the
4 Federal Reserve System are performed by the Federal
5 Reserve Banks. Among the Board's duties is the
6 responsibility for supervising those operations and,
7 under the authority of the Federal Reserve Act, the
8 Board issues regulations to govern them.

9 159. As will be spelled out in more
10 detail later, the Board appoints three of the nine
11 directors of each Federal Reserve Bank, including
12 the Chairman, who is also the Federal Reserve Agent,
13 and the Deputy Chairman. Appointments of the
14 President and First Vice President of each Federal
15 Reserve Bank are subject to the Board's approval.

16 160. Annual budgets for each of the 12
17 Federal Reserve Banks and their 24 branches are
18 submitted to the Board. The salaries of all officers
19 and employees of the Reserve Banks are subject to
20 the Board's approval. This responsibility is
21 discharged largely through the use of salary classi-
22 fication systems. Certain other expenditures, such
23 as those for purchase of real estate for banking
24 office purposes and for the construction or major
25 alteration of bank buildings, are submitted to the
26 Board for approval. Reports showing comparative
27 expenses of the Reserve Banks are analysed by the
28 Board's staff, which also makes surveys at the Reserve
29 Banks of operating procedures and of other matters
30 relating to their expenses and cost accounting systems.



has virtually none of the operating functions common to central banks. The operating functions of the Federal Reserve System are performed by the Federal Reserve Banks. Among the Board's duties is the responsibility for supervising those operations and, under the authority of the Federal Reserve Act, the Board issues regulations to govern them.

150. As will be spelled out in more detail later, the Board appoints three of the nine directors of each Federal Reserve Bank, including the Chairman, who is also the Federal Reserve Agent, and the Deputy Chairman. Appointments of the President and First Vice President of each Federal Reserve Bank are subject to the Board's approval.

150. Annual budgets for each of the Federal Reserve Banks and their subsidiaries are submitted to the Board. The salaries of all officers and employees of the Reserve Banks are subject to the Board's approval. This responsibility is

extended to the Board's approval of certain other expenditures, such as those for purchase of real estate for banking office purposes and for the construction or major alteration of bank buildings, and submitted to the Board for approval. The Board also approves the expenses of the Reserve Banks and surveys of the Reserve Banks' assets, which also covers surveys of the Reserve Banks of operating procedures and of other matters relating to their expenses and cost accounting systems.



1 In addition, the Board coordinates System economic
2 research and data collection and reviews all System
3 publications.

4 161. Each Federal Reserve Bank and branch
5 is examined at least once a year by the Board's
6 examiners, who are directed to determine the financial
7 condition and the compliance by its management with
8 applicable provisions of law and Board regulation.
9 The examiners also review the bank's audit program and
10 activities of the resident auditor and his staff to
11 see that they are adequate and effective. The Board
12 also directs System activities in the examination
13 and supervision of its member banks. It must also
14 approve the establishment of branches for State
15 member banks; bank mergers where the resulting bank
16 is a State member; and is generally responsible for
17 the supervision of all bank holding company operations,
18 including the formation of new bank holding companies
19 and the acquisition of additional banks by existing
20 holding companies.

21 162. Within the framework of the Federal
22 Government, the Board represents the Federal Reserve
23 System in most of its relations with executive
24 departments and with congressional committees. It
25 is required by law to exercise special supervision over
26 foreign contacts and international operations of the
27 Reserve Banks. The Chairman of the Board is a member
28 of the National Advisory Council on International
29 Monetary and Financial Problems. The Council con-
30 sists of the Secretary of the Treasury (who serves as



and data collection and review all System

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condition and the compliance by its management with

applicable provisions of law and Board resolution.

The examiners also review the bank's assets, liabilities and

activities of the resident auditor and his staff to

see that they are adequate and effective. The Board

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and supervision of its member banks. It must also

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Reserve Bank. The Chairman of the Board is a member

of the National Advisory Council on International

Monetary and Financial Problems. The Council con-

sists of the Secretary of the Treasury (who serves as



Chairman), the Secretary of State, the Secretary of Commerce, and the Chairman of Export-Import Bank, as well as the Chairman of the Federal Reserve Board. At times other Federal Government agencies engaged in international operations of a financial nature have been represented. The National Advisory Council has responsibility for coordinating the policies and operations of the representatives of the United States on international financial institutions and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange, or monetary transactions.

163. These foregoing administrative responsibilities are apart from the Board's primary function which is related to the formulation of monetary and credit policy, and which is discussed elsewhere in this paper.

The Federal Reserve Banks

164. At the end of 1961 the Federal Reserve System had 6,113 member banks. Of these, 4,513 were national banks and 1,600 were State chartered banks. All banks with national charters are required to belong to the System. Banks with State charters, if qualified for membership, may, with approval of the Board, voluntarily join the System. While somewhat less than one-half of all banks in the United States belong to the Federal Reserve System, member banks hold about 85 per cent of the total deposits of all commercial banks.

165. Decentralization is an important



Chairman, the Secretary of State, the Secretary of
 Commerce, and the Chairman of the Federal Reserve Board.
 well as the Chairman of the Federal Reserve Board.
 At times other Federal Government agencies engaged in
 international operations of a financial nature have
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 responsibility for coordinating the policies and
 operations of the representatives of the United
 States or international financial institutions and of
 all agencies of the Government which make or participate
 in making foreign loans or which engage in foreign
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 responsibilities are apart from the Board's primary
 function which is related to the formulation of
 monetary and credit policy, and which is discussed
 elsewhere in this paper.

The Federal Reserve Banks

109. At the end of 1961 the Federal
 Reserve System had 13 member banks. Of these, 11
 were national banks and 2 were State member
 banks. All banks with national charters are required
 to belong to the System. Banks with State charters,
 if qualified for membership, may, with approval of
 the Board, voluntarily join the System. While
 somewhat less than one-half of all banks in the
 United States belong to the Federal Reserve System,
 member banks hold about 85 per cent of the total
 deposits of all commercial banks.

110. Decentralization is an important



1 characteristic of the Federal Reserve System. Each
2 of the 12 Federal Reserve Banks and each of the 24
3 branches is a regional and local institution, as
4 well as part of a nationwide system. Its officers
5 and employees are residents of the Federal Reserve
6 District and its transactions are with regional
7 and local banks and businesses. It gives effective
8 representation to the views and interests of its
9 particular region and at the same time helps to
10 administer nationwide banking and credit policies.

11 166. Board of Directors. -- Each Reserve
12 Bank operates under the general direction of a
13 board of nine directors. The board of directors is
14 primarily responsible for the conduct of the Bank's
15 affairs in the public interest, subject to the
16 supervision of the Board of Governors. The directors
17 choose the Reserve Bank officers but their appoint-
18 ments of President and First Vice President -- who
19 are the chief executive officers of the Bank, and
20 whose terms are for five years -- must be approved
21 by the Board of Governors.

22 167. A director's term of office is three
23 years and he may be reelected or reappointed,
24 although a generally accepted policy of rotation
25 among directors limits the service of nearly all
26 directors to a maximum of six years. Three are known
27 as Class A directors, three as Class B directors, and
28 three as Class C directors. Class A and B directors
29 are elected by member banks, one director of each
30 class being elected by small banks, one of each class



... of the ...

branches in a regional and local institution, as well as part of a nationwide system. The officers and employees are residents of the Federal Reserve District and its branches are with regional and local banks and businesses. It gives effective representation to the views and interests of the general region and at the same time helps to administer nationwide banking and credit policies.

186. Board of Directors. -- Each Reserve

bank operates under the general direction of a board of nine directors. The board of directors is primarily responsible for the conduct of the bank's affairs in the public interest, subject to the supervision of the Board of Governors. The directors choose the Reserve Bank officers but their appointments of President and First Vice President -- who are the chief executive officers of the bank, and whose terms are for five years -- must be approved by the Board of Governors.

187. A director's term of office is for five years and he may be re-elected or reappointed, although a generally accepted policy of rotation among directors limits the service of nearly all directors to a maximum of six years. There are four classes A directors, three as Class B directors, and three as Class C directors. Class A and B directors are elected by member banks, one director of each class being elected by small banks, one of each class



1 by banks of medium size, and one of each class by
2 large banks.

3 168. The three Class A directors may be
4 bankers, and usually are. The three Class B
5 directors must be actively engaged in the District in
6 commerce, agriculture or some industrial pursuit,
7 and must not be officers, directors, or employees of
8 any bank. The three Class C directors are appointed
9 by the Board of Governors. They must not be
10 officers, directors, employees, or stockholders of
11 any bank. One of them is designated by the Board of
12 Governors as Chairman of the Reserve Bank board of
13 directors, and one as Deputy Chairman. The Chairman,
14 by statute, also serves as Federal Reserve Agent.

15 169. Thus businessmen and others who are
16 not bankers -- potential borrowers as contrasted to
17 lenders -- constitute a majority of the directors of
18 each Federal Reserve Bank. The provisions of law
19 circumscribing the selection of Reserve Bank
20 directors and the management of the Reserve Banks
21 clearly indicate the public nature of these
22 institutions.

23 170. (a) Election. -- As indicated previously,
24 six of the nine members on each Reserve Bank board of
25 directors are elected by the commercial banks in that
26 District that are members of the Federal Reserve System.
27 Whenever there is a vacancy among either the Class A
28 or Class B directors on a District board, each member
29 bank in the size grouping (small, medium or large
30 banks) in which the vacancy occurs is permitted to



by the Board of Directors, and one of each class by

188. The three Class A directors may be

bankers, and usually are. The three Class B

directors must be actively engaged in the District in

and must not be officers, directors, or employees of

any bank. The three Class C directors are appointed

by the Board of Governors. They must not be

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any bank. One of them is designated by the Board as

Governor or Chairman of the Reserve Bank Board of

Directors, and one as Deputy Chairman. The Chairman,

by statute, also serves as Federal Reserve Agent.

189. These businessmen and others who are

not bankers -- commercial bankers as mentioned in

Section 18 -- constitute a majority of the directors in

each Federal Reserve Bank. The provisions of law

describing the election of Reserve Bank

directors and the management of the Reserve Bank

clearly indicate the public nature of these

190. (a) Director. -- An individual person

one of the nine members on each Reserve Bank Board of

Directors are elected by the commercial banks in that

District that are members of the Federal Reserve System

Whenever there is a vacancy among either the Class A

or Class B directors on a District Board, each member

part in the class grouping (bank, merchant or lawyer

factor) in which the vacancy exists is entitled to



1 nominate a candidate. The banks in that grouping
2 vote by preferential ballot, indicating their first,
3 second, and other choices among the eligible candidates.
4 Any candidate having a majority of all votes cast in
5 the column of first choice is declared to have been
6 elected; however, if no candidate has a majority of
7 first choice votes, then the second choice votes
8 are added to the first choice votes for each candidate.
9 The candidate then having a majority of the electors
10 voting and the highest combined votes is declared
11 elected. Elections for Federal Reserve directorships
12 are usually routine but occasionally they have been
13 hotly contested campaigns with the outcome decided by
14 an extremely narrow margin.

15 171 (b) Appointment. -- Suggestions for the
16 appointment of Class C directors by the Board of
17 Governors come from a wide variety of sources. Among
18 these sources are members of the Board of Governors,
19 officers of a Reserve Bank or its board of directors,
20 the retiring directors, and others on whose judgment
21 the Board can rely. Consideration is also given to the
22 shifting of directors from branch to head office boards.
23 Those selected for appointment are among civic, business,
24 professional, and educational leaders of the District
25 or branch territory. Since 1915, the Board has
26 followed a policy of prohibiting anyone from either being
27 elected or appointed to the board of directors of a
28 Reserve Bank who holds a public office of a political
29 nature.

30 172. Branch boards of directors. -- Each of the



vote by preferential ballot, indicating their first, second, and other choices among the eligible candidates. Any candidate having a majority of all votes cast in the column of first choice is declared to have been elected; however, if no candidate has a majority of first choice votes, then the second choice votes are added to the first choice votes for each candidate. The candidate then having a majority of the electors voting and the highest combined votes is declared elected. Elections for Federal Reserve Directorships are usually routine but occasionally they have been hotly contested campaigns with the outcome decided by an extremely narrow margin.

771 (b) Appointment. -- Suggestions for the

appointment of Class C directors by the Board of Governors come from a wide variety of sources. Among these sources are members of the Board of Governors, officers of a Reserve Bank or its board of directors, the retiring directors, and others on whose judgment the Board can rely. Consideration is also given to the shifting of directors from branch to head office banks. Those selected for appointment are among civic, business, professional, and educational leaders of the District or branch territory. Since 1915, the Board has followed a policy of prohibiting anyone from either being elected or appointed to the board of directors or a Reserve Bank who holds a public office of a political



24 branch offices of Reserve Banks also has a board of directors of either five or seven members. Of these, a majority is appointed by the head office board of directors of the Federal Reserve Bank and the remaining minority is appointed by the Board of Governors in Washington. Those appointed by the Federal Reserve Banks have usually been commercial bankers. Recruitment for those appointed by the Board of Governors, on the other hand, has followed the general pattern of Class C directors.

173. Although the Board of Governors is authorized to exercise general supervision over the Reserve Banks, the primary responsibility for day-to-day operation rests under the law with the boards of directors. Having had broad business and professional experience they are in a position to give informed judgments on problems of organization, management and operation.

174. The contribution that the Reserve Bank and branch directors are in a position to make to the formation and execution of national credit and monetary policy goes beyond these specific responsibilities. They are outstanding persons in their communities who are in close contact with financial, business, and agricultural conditions in their respective districts. Thus they are able to add to deliberations of the System the benefit of broad experience and training and to perform an essential service in supplying judgment and advice on economic conditions in their respective districts.

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19. whom a majority is appointed by the Board of

20. directors of the Federal Reserve Bank and the

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26. custom of Class C directors.

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32. experience they are in a position to give informed

33. judgments on problems of organization, management and

34. operation.

35. 174. The contribution that the Reserve

36. Bank and branch directors are in a position to make

37. to the formation and execution of national credit

38. and monetary policy goes beyond these specific

39. responsibilities. They are outstanding persons in

40. their communities who are in close contact with

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42. their respective districts. Thus they are able to

43. contribute to the development of the system the benefit of broad

44. experience and training and to perform an essential

45. service in supplying judgment and advice on economic

46. conditions in their respective districts.



1 175. When a System policy has been
2 determined, Reserve Bank directors can play a vital
3 role in explaining that policy to interested people
4 in their districts. It is important that the reasons
5 for System actions be understood by bankers, businessmen,
6 professional persons, farmers, labor groups, and others. 2/

7 176. Reserve Bank Officials -- The Banking
8 Act of 1935 provided that the chief executive officers
9 of each Federal Reserve Bank shall be its President,
10 or in the absence or disability of the President, the
11 First Vice President. Unlike boards of directors who
12 serve only a part-time basis, these men are full-time
13 officers appointed by the board of directors of the
14 Reserve Bank to serve for five-year terms. Their
15 appointments to these positions, as indicated above,
16 must be approved by the Federal Reserve Board. The
17 board of directors also appoints all other officers
18 and employees not otherwise provided for by the
19 Federal Reserve Act.

20 177. As chief executive officer, the
21 President has responsibility for the day-to-day
22 administration of the Bank under directions given by
23 the board of directors. He makes regular reports to
24 his board with respect to those matters with which the
25 directors are concerned. He also participates in

26
27 2/ A more comprehensive discussion of the role of
28 Federal Reserve directors, their nomination
29 and election, and their functions may be found on
30 pages 5-21 of the Annual Report of the Federal Reserve
Bank of Richmond for the year 1961.



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2. A more comprehensive discussion of the role of

Reserve Bank officials is given in the

and election, and their functions may be found on

pages 5-21 of the Annual Report of the Federal Reserve



1 the Conference of Reserve Bank Presidents and serves
2 from time to time as a member of the Federal Open
3 Market Committee.

4 178. With these responsibilities, the
5 Presidents of the Federal Reserve Banks occupy an
6 important position in the organizational structure
7 of the Reserve System and their duties go far beyond
8 efficient direction of the operating functions of
9 the Reserve Banks. The men who have served or are
10 serving as Reserve Bank Presidents have had varied
11 backgrounds. A majority have had extensive banking
12 experience either at private commercial banks or
13 within the Federal Reserve System. A background in
14 economics has been an important part of the training and
15 experience of several men who have recently been
16 appointed to these positions, reflecting the parti-
17 cipation by Reserve Bank Presidents in the formulation
18 of System monetary and credit policy through the
19 frequent periodic meetings of the Open Market Committee.
20 Of the 12 Presidents in office at the beginning of 1962,
21 eight had spent substantially all of their business
22 careers in the Federal Reserve System before becoming
23 President and two others had at least five years of
24 prior System experience before taking office.

25 179. In addition to the President and First
26 Vice President, each Reserve Bank has a number of
27 vice presidents and other officials with supervisory
28 direction over some specific phase of Reserve Bank
29 operations. These include bank examination and
30 supervision, fiscal agency operations, collections, cash,

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vice presidents and other officials with supervisory

direction over some specific phase of Reserve Bank

operations. These include bank examination and



1 legal matters, research and statistics, personnel,
2 accounting, and administrative or housekeeping services.
3 Recruiting and Training of Potential Executive Personnel

4 180. The selection of members of the
5 Federal Reserve Board, Presidents and First Vice
6 Presidents, and directors of the Federal Reserve Banks
7 has been discussed in preceding sections. The following
8 comments relating to the Federal Reserve System's method
9 of recruiting and training potential executive personnel
10 apply to the staffs of both the Board and the Reserve
11 Banks.

12 181. Before discussing details, there are
13 a few basic factors that should be noted. First, the
14 general reputation and prestige enjoyed by any
15 organization, public or private, is a key element in
16 its ability to attract and to retain high calibre
17 professional personnel. In this respect both the
18 Federal Reserve Banks and the Board have built up
19 over the nearly 50 years of their existence a reputation
20 for high standards of professional competency and
21 integrity.

22 182. Further, the significant ingredient
23 of public service attached to executing the responsibilities
24 of the Federal Reserve System as trustee for the
25 nation's currency also has been of considerable relevance
26 in the attraction of, and the satisfaction to be
27 derived from a career with the System. Finally, even
28 though positions throughout the Federal Reserve are not
29 a part of the Government's Civil Service program, staff
30 appointments have been based on merit and have been



personnel, statistics, and other matters.

100. The selection of members of the

Federal Reserve Board, Presidents and First Vice

Presidents, and directors of the Federal Reserve Banks

has been discussed in preceding sections. The following

comments relating to the Federal Reserve System's method

of recruiting and training potential executive personnel

apply to the staffs of both the Board and the Reserve

101. Before discussing details, there are

a few basic factors that should be noted. First, the

general reputation and prestige enjoyed by any

organization, public or private, is a key element in

its ability to attract and to retain high caliber

professional personnel. In this respect both the

Federal Reserve Banks and the Board have built up

over the nearly 50 years of their existence a reputation

for high standards of professional competency and

102. Further, the Federal Reserve System

of public service attached to exercising the responsibilities

of the Federal Reserve System as trustees for the

nation's currency also has been of considerable help

in the attraction of, and the retention of, the

talent from a career with the System. Finally, even

though positions throughout the Federal Reserve are not

appointments have been based on merit and have been



1 singularly free from influence of a partisan or
2 special-interest nature. Likewise, the nonpartisan
3 standards for service while in the System are rigidly
4 adhered to.

5 183. Recruiting. -- An important portion
6 of Federal Reserve personnel consists of professional
7 staff specialists who do not occupy executive
8 positions. These include economists, bank examiners,
9 and lawyers. In recruiting economists the System
10 competes with other Government agencies, with
11 financial institutions and business enterprises, and
12 with academic institutions for a relatively limited
13 supply of qualified personnel. The market is somewhat
14 further restricted by the fact that the Board and
15 the Federal Reserve Banks tend to concentrate on
16 persons with advanced graduate training. There are
17 comparatively few colleges and universities offering
18 advanced work of this type, especially with the requisite
19 degree of specialization in money and banking.

20 184. In a real sense, the Federal Reserve
21 Board and the Federal Reserve Banks compete against
22 one another for the available supply of qualified
23 personnel. Despite this, there is a substantial degree
24 of cooperation and coordination of recruiting efforts
25 within the System. To assure a continuing source of
26 potential recruits it is essential that both the Board
27 and the Reserve Banks maintain close liaison with the
28 faculties of those universities offering the kind of
29 academic training suitable for System employment. This
30 is done in a variety of ways.

unusually free from influence of a partisan or special-interest nature. Likewise, the nonpartisan standards for service which in the system are rigidly adhered to.

183. Reservists. -- An important portion

of Federal Reserve personnel consists of professional staff specialists who do not occupy executive

and lawyers. In recruiting economists the system

competes with other Government agencies, with

financial institutions and business enterprises, and

with academic institutions for a relatively limited

supply of qualified personnel. The market is somewhat

further restricted by the fact that the Board and

the Federal Reserve Banks tend to concentrate on

persons with advanced graduate training. There are

consequently few colleges and universities offering

advanced work of this type, especially with the regular

degree of specialization in money and banking.

184. In a real sense, the Federal Reserve

Board and the Federal Reserve Banks compete against

one another for the available supply of qualified

personnel. Despite this, there is a substantial degree

of cooperation and coordination of recruiting efforts

within the system. To assure a continuing source of

potential recruits it is essential that both the Board

and the Reserve Banks maintain close liaison with the

universities and other institutions of higher learning

in order to keep abreast of the latest developments



1 185. So far as the Board is concerned, senior
2 members of the staff of the Division of Research and
3 Statistics and the Division of International Finance are
4 encouraged to accept speaking engagements on university
5 campuses and at meetings of the professional societies
6 to maximize contacts with outstanding academicians.
7 Frequently, leading authorities in the field of money
8 and banking are brought to the Board's offices for
9 consultative work. Also, the Board offers a limited
10 number of opportunities for summer employment to
11 graduate students as research assistants. These
12 latter contacts afford a first-hand pregraduation look
13 at prospective staff members.

14 186. The Federal Reserve Banks are engaged
15 in similar practices to maintain close liaison with
16 the university faculties in their Districts. In
17 some respects, and by virtue of their regional character,
18 they have refined these techniques somewhat further
19 than it has been possible for the Board's staff to do.
20 Most of the Reserve Banks have periodic seminars
21 of varying duration to which professors of money and
22 banking are invited for a give-and-take discussion of
23 Federal Reserve procedures and policies. These
24 seminars have primarily served as a means of
25 disseminating current information but they have also
26 proved successful in establishing important contacts
27 for staff recruitment. At least one Reserve Bank has
28 provided special research fellowships for students
29 desiring to undertake specific projects of benefit
30 to the System. These, too, have proved to be an

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... at prospective staff members.
...
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1 effective recruitment medium.

2 187. The searching out of potential staff
3 for other phases of Reserve Bank and Board operations
4 has in some respects been keyed to the same approach
5 of close liaison with universities and colleges.

6 Following the example of many business corporations
7 in this country, officers of the System interview and
8 recruit members of graduating classes in schools of
9 business and economics and at liberal arts colleges.
10 The most likely prospects are then invited to visit
11 the Reserve Banks for further interviews. These have
12 proved useful in recruiting personnel for various
13 phases of the Banks' operations.

14 188. Development and training. -- Both
15 the Federal Reserve Banks and the Board have devised
16 comprehensive development and training programs for
17 potential executive personnel and for specialists
18 already on their staffs. The discussion of this
19 topic concentrates primarily on activities fostered by
20 the Federal Reserve Board but these are typical of
21 similar efforts by the management of the Federal Reserve
22 Banks.

23 189. The development programs are essentially
24 of two kinds: (1) individual training assignments, and
25 (2) group programs.

26 190. Individual training assignments have
27 included attendance at various institutes, seminars, or
28 workshops; visits to the Federal Reserve Banks and
29 commercial banks; attendance at special banking courses
30 at schools of banking; academic work at educational



1. The searching out of potential staff for other phases of Reserve Bank and Board operations has in some respects been keyed to the time approach of close liaison with universities and colleges. Including the example of many business organizations in this country, officers of the System interview and recruit members of graduating classes in schools of business and economics and at liberal arts colleges. The most likely prospects are then invited to visit the Reserve Bank for further interviews. These have proved useful in recruiting personnel for various phases of the Bank's operations.

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Individual training assignments, seminars, or workshops; visits to the Federal Reserve Banks and other Federal Reserve offices; attendance at special training courses at schools of business; seminars with an educational



1 institutions in connection with completion of graduate
2 degrees; and graduate study under fellowship programs
3 sponsored by private foundations. Professional per-
4 sonnel have been encouraged to participate in
5 educational programs at the graduate level with at
6 least a portion of the cost of such programs under-
7 written by the Board or the Reserve Banks.

8 191. Another important aspect of individual
9 staff training has been the transfer of personnel
10 among the Reserve Banks and between the Reserve Banks and
11 the Board. A number of Reserve Bank personnel have
12 been brought to the Board's offices for temporary
13 assignments in several of the Board's divisions as a
14 means of alleviating peak work loads and providing a
15 broadening experience for such personnel. Transfers
16 of Reserve Board personnel to the Banks on a temporary
17 basis has been less frequent but there have been
18 several permanent transfers of Board staff to the
19 Reserve Banks.

20 192. Group programs involving from 12 to
21 more than 50 participants, and lasting for periods of
22 up to 20 weeks, have covered a wide variety of subject
23 matter. These have included Discussion and Conference
24 Leadership, Practices and Principles of Supervision,
25 Effective Writing, Advance Mathematical Economics,
26 Reading Improvement, Public Speaking, and seminar-type
27 programs on topics relevant to operations of the
28 Federal Reserve System. In most instances these
29 programs were conducted by specialists in the particular
30 field from outside the Board's organization.



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means of obtaining experience in such assignments. Transfer
of Reserve Bank personnel to the Board on a temporary
basis has been less frequent and there have been
several permanent transfers of Board staff to the
Reserve Banks.

192. Group programs involving from 25 to

more than 50 participants, and lasting for periods of
up to 90 weeks, have covered a wide variety of subjects.
These have included instruction and demonstration
teaching, Practicum and Principles of Supervision,
Effective Writing, Advanced Mathematical Economics,
and the Reserve Bank's role in the economy. In most instances these
programs on topics relevant to operations of the
Federal Reserve System. In more instances these
programs are designed to provide for the professional
development of the staff.



1 193. Increased emphasis on the use of
2 electronic computers within the Federal Reserve System
3 has led to a series of courses offered at the Board's
4 offices and open to members of the staff of the Board
5 and the Reserve Banks, to representatives from other
6 Government agencies and, on occasion, to representatives
7 from other central banks. Similarly, as mechanical
8 processes for commercial bank accounting and
9 automatic check handling have been developed, the
10 System has conducted training programs and sponsored
11 conferences involving its personnel, as well as those
12 of the other supervisory agencies and of commercial
13 banks.

14 194. Considerable attention has also been
15 directed to the development of bank supervisory
16 personnel, especially in the field of bank examination
17 work. Since 1952 the Federal Reserve System, in
18 cooperation with the other Federal bank supervisory
19 agencies and State banking departments, has conducted
20 an Inter-Agency Bank Examination School. Four-week
21 intensive training courses have been offered at two
22 levels: one a School for Assistant Examiners directed
23 to junior personnel, and a more advanced School for
24 Examiners designed for senior personnel. Since the
25 establishment of the school, 36 sessions of the School
26 for Assistant Examiners have been presented to 1,320
27 men and 16 sessions of the School for Examiners have
28 been attended by 526 men. Representatives of the three
29 Federal bank supervisory agencies, another Federal agency,
30 and of 20 State banking departments have been included among
the students, as well as a few from other countries.



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